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If you have sold or transferred all your shares in **Yunnan Water Investment Co., Limited***, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

**MAJOR TRANSACTION
IN RELATION TO DISPOSALS OF
100% EQUITY INTEREST IN HYFLUX WASTE WATER
AND
100% EQUITY INTEREST IN YEJI YUNSHUI WATER**

* *For identification purposes only*

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company;
“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a limited liability company established in the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 300070);
“Board”	the board of Directors of the Company;
“Closely Allied Group”	the closely allied group of Shareholders comprising (i) Green Environmental Protection; and (ii) Beijing OriginWater, which collectively holds 645,407,162 Domestic Shares, representing approximately 54.09% of the total number of Shares in issue of the Company as at the Latest Practicable Date;
“Company”	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839);
“COVID-19”	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC, Hong Kong and worldwide since around January 2020;
“Director(s)”	the director(s) of the Company;
“Disposal Assets”	the 100% equity interest in Hyflux Waste Water, and the 100% equity interest in Yeji Yunshui Water;
“Disposals”	the Hyflux Disposal and the Yeji Disposal;
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB;
“Equity Transaction Agreements”	the Hyflux Equity Transaction Agreement and the Yeji Equity Transaction Agreement;
“Green Environmental Protection”	Yunnan Green Environmental Protection Industry Group Co., Ltd.* (雲南省綠色環保產業集團有限公司) (formerly known as Yunnan Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司)), a limited liability company established in the PRC, which is one of the controlling shareholders of the Company;
“Group”	the Company and its subsidiaries;

DEFINITIONS

“H Share(s)”	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hyflux Disposal”	the disposal of 100% equity interest by Hyflux Utility to the Purchaser in accordance with the terms and conditions of the Hyflux Equity Transaction Agreement;
“Hyflux Equity Transaction Agreement”	the sale and purchase agreement dated 20 December 2022, together with its supplemental agreement, entered into between Hyflux Utility and the Purchaser in relation to the Hyflux Disposal;
“Hyflux Utility”	Hyflux Utility WWT (MG) Limited (凱發新泉公用事業污水(明光)有限公司), a company incorporated in Singapore with limited liability;
“Hyflux Waste Water”	Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (凱發污水處理(明光)有限公司), a company established in the PRC with limited liability;
“Latest Practicable Date”	22 February 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC” or “State”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Purchaser”	CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司), a limited liability company established in the PRC and the purchaser of the Disposal Assets;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supervisor(s)”	the supervisor(s) of the Company;

DEFINITIONS

“Valuation Reports”	the valuation reports of Disposal Assets as of 31 December 2021 prepared by the Valuer, full text of which is set out in Appendix II to this circular;
“Valuer”	Allied Appraisal Co., Ltd. (中聯國際評估諮詢有限公司);
“Working Day”	a day other than Saturday, Sunday and statutory holiday in the PRC;
“Yeji Disposal”	the disposal of 100% equity interest by Yeji Yunshui Water to the Purchaser in accordance with the terms and conditions of the Yeji Equity Transaction Agreement;
“Yeji Equity Transaction Agreement”	the sale and purchase agreement dated 28 December 2022, together with its supplemental agreement, entered into between the Company and the Purchaser in relation to the Yeji Disposal;
“Yeji Yunshui Water”	Lu’an Yeji Yunshui Water Investment Co., Ltd.* (六安市葉集區雲水水務投資有限公司), a company established in the PRC with limited liability;
“YNEX”	Yunnan Equity Exchange Co., Ltd., an institution authorised by the Yunnan Provincial State-owned Assets Supervision and Administration Commission to transact assets and equity of state-owned enterprises under the Yunnan Provincial Government; and
“%”	per cent.

* *For identification purposes only*

LETTER FROM THE BOARD



YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

Executive Directors:

Mr. Yu Long (*Vice Chairman, General Manager*)

Mr. Zhou Zhimi

Non-executive Directors:

Mr. Mei Wei (*Chairman*)

Mr. Dai Richeng

Mr. Chen Yong

Mr. Liu Hui

Independent Non-executive Directors:

Mr. Liu Shuen Kong

Mr. Zhong Wei

Mr. Zhou Beihai

**Registered office and principal place
of business in the PRC:**

Yunnan Water
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Principal place of business in Hong Kong:

Suites 3110–11, 31/F, Tower 1
The Gateway, Harbour City
25 Canton Road, Tsim Sha Tsui, Kowloon
Hong Kong

24 February 2023

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO DISPOSALS OF
100% EQUITY INTEREST IN HYFLUX WASTE WATER
AND
100% EQUITY INTEREST IN YEJI YUNSHUI WATER**

INTRODUCTION

References are made to the announcements of the Company dated 25 August 2022, 20 December 2022, 28 December 2022, 29 December 2022 and 26 January 2023 in relation to, among other things, the disposal of Disposal Assets by way of public tender through YNEX.

LETTER FROM THE BOARD

The Board is pleased to announce that on 20 December 2022, Hyflux Utility, a wholly-owned subsidiary of the Company (as vendor) and the Purchaser (as purchaser) entered into the Hyflux Equity Transaction Agreement, pursuant to which, Hyflux Utility has agreed to sell, and the Purchaser has agreed to acquire, 100% equity interest in Hyflux Waste Water at the consideration of RMB96,523,000. Upon completion of the Hyflux Disposal, Hyflux Utility shall cease to have any interest in Hyflux Waste Water. On 28 December 2022, the Company (as vendor) and the Purchaser (as purchaser) entered into the Yeji Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and the Purchaser has agreed to acquire, 100% equity interest in Yeji Yunshui Water at the consideration of RMB87,295,900. Upon completion of the Yeji Disposal, the Company shall cease to have any interest in Yeji Yunshui Water.

Since the Yeji Equity Transaction Agreement is entered into within 12 months after the Hyflux Equity Transaction Agreement, and the Equity Transaction Agreements are both entered into with the Purchaser, the Yeji Disposal shall be aggregated together with the Hyflux Disposal to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rule.

As the highest applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposals, when aggregated, exceeds 25% but is less than 75%, the Disposals constitute major transactions under Chapter 14 of the Listing Rules, and are subject to reporting, announcement and Shareholders' approval requirements.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Disposals may be given by way of written Shareholders' approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposals; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who holds or together hold more than 50% of the voting rights at that general meeting to approve the Disposals.

The Company has obtained the written Shareholders' approval from the Closely Allied Group holding an aggregate of 645,407,162 Shares, representing approximately 54.09% of the entire issued share capital of the Company as at the date of this circular. As such, no general meeting will be convened for the purpose of approving the Disposals.

The purpose of this circular is to provide you with, among other things, (i) further information about the Disposals; and (ii) other disclosable information under the Listing Rules.

LETTER FROM THE BOARD

HYFLUX EQUITY TRANSACTION AGREEMENT

- Date: 20 December 2022 (after trading hours)
- Parties: (i) Hyflux Utility (as vendor); and
(ii) the Purchaser (as purchaser)
- Disposal Interest: Under the Hyflux Disposal, Hyflux Utility has agreed to sell, and the Purchaser has agreed to acquire, 100% interest in Hyflux Waste Water.
- Consideration and Basis of Determination: The Company has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Hyflux Disposal is RMB96,523,000, which was determined and equivalent to the appraised value of Hyflux Waste Water as at 31 December 2021 by an independent PRC valuer using the income approach.
- Since the Company is a state-owned enterprise, the equity interest of Hyflux Waste Water held by the Company constitutes a state-owned asset, and the Hyflux Disposal is required to undergo the public tender process through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of state-controlled assets. The Hyflux Disposal has been carried out through and in accordance with the relevant rules of YNEX. The Company submitted the tender notice to YNEX setting out, inter alia, (i) the minimum consideration, which shall not be lower than the appraised value of Hyflux Waste Water; (ii) the principal terms of the bidding; and (iii) descriptions and qualifications of the potential bidders. Qualification conditions cannot generally be imposed on potential bidders for the transfer of state-owned assets unless they are not directive to specific bidders nor in violation of the principle of fair competition. Upon acceptance of the tender notice from the Company, YNEX arranged for publication of the transfer information for a period of not less than 20 working days from the date of the tender notice. During the publication period, qualified bidders would indicate their intention to purchase Hyflux Waste Water and register themselves as interested bidders. Upon the expiry of the publication period, YNEX notified the Company of the identity of the successful bidder (being the highest bidder). Since the Purchaser was the only qualified bidder in the public tender of Hyflux Waste Water, the Company entered into the Hyflux Equity Transaction Agreement with the Purchaser.
- Payment Terms: The Purchaser shall pay the consideration in two installments:
- (a) 60% of the consideration (i.e. RMB57,913,800) shall be and has been paid to Hyflux Utility within 5 Working Days from signing of the Hyflux Equity Transaction Agreement; and
 - (b) 40% of the consideration (i.e. RMB38,609,200), subject to deduction of the withholding tax payable as required by the local tax authority and settlement of outstanding intra-group payments, shall be paid to Hyflux Utility within 7 Working Days after submission of the relevant materials for the change of registration to the responsible industry and commerce authority.

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- Transition Period: During the period from the transaction reference date (i.e. 31 December 2021) to the completion of the transfer of the interest of Hyflux Waste Water, Hyflux Utility is obliged to maintain good management of Hyflux Waste Water and its shareholder's rights and assets.
- Completion: Completion shall take place on the date when the change of registration procedures in the responsible industry and commerce authority completes.

YEJI EQUITY TRANSACTION AGREEMENT

- Date: 28 December 2022 (after trading hours)
- Parties: (i) The Company (as vendor); and
(ii) the Purchaser (as purchaser)
- Disposal Interest: Under the Yeji Disposal, the Company has agreed to sell, and the Purchaser has agreed to acquire, 100% interest in Yeji Yunshui Water.
- Consideration and Basis of Determination: The Company has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Yeji Disposal is RMB87,295,900, which was determined and equivalent to the appraised value of Yeji Yunshui Water as at 31 December 2021 by an independent PRC valuer using the income approach.

Since the Company is a state-owned enterprise, the equity interest of Yeji Yunshui Water held by the Company constitutes a state-owned asset, and the Yeji Disposal is required to undergo the public tender process through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of state-controlled assets. The Yeji Disposal has been carried out through and in accordance with the relevant rules of YNEX. The Company submitted the tender notice to YNEX setting out, inter alia, (i) the minimum consideration, which shall not be lower than the appraised value of Yeji Yunshui Water; (ii) the principal terms of the bidding; and (iii) descriptions and qualifications of the potential bidders. Qualification conditions cannot generally be imposed on potential bidders for the transfer of state-owned assets unless they are not directive to specific bidders nor in violation of the principle of fair competition. Upon acceptance of the tender notice from the Company, YNEX arranged for publication of the transfer information for a period of not less than 20 working days from the date of the tender notice. During the publication period, qualified bidders would indicate their intention to purchase Yeji Yunshui Water and register themselves as interested bidders. Upon the expiry of the publication period, YNEX notified the Company of the identity of the successful bidder (being the highest bidder). Since the Purchaser was the only qualified bidder in the public tender of Yeji Yunshui Water, the Company entered into the Yeji Equity Transaction Agreement with the Purchaser.

LETTER FROM THE BOARD

- Payment Terms: The Purchaser shall pay the consideration in two installments:
- (a) 60% of the consideration (i.e. RMB52,377,540) shall be and has been paid to the Company within 5 Working Days from signing of the Yeji Equity Transaction Agreement; and
 - (b) 40% of the consideration (i.e. RMB34,918,360) shall be paid to the Company within 7 Working Days after submission of the relevant materials for the change of registration to the responsible industry and commerce authority, and has been settled in January 2022.
- Transition Period: During the period from the transaction reference date (i.e. 31 December 2021) to the completion of the transfer of the interest of Yeji Yunshui Water, the Company is obliged to maintain good management of Yeji Yunshui Water and its shareholder's rights and assets. It is agreed that the Purchaser shall be entitled to the revenue of Yeji Yunshui Water since 1 December 2022.
- Completion: Completion is conditional on the obtaining by the Company of the internal approvals for the Yeji Equity Transaction Agreement of all competent authorities (including but not limited to the Shareholders' approval, the board approvals and/or other internal management bodies of the Company). Completion shall take place on the date when the change of registration procedures in the responsible industry and commerce authority completes.

APPRAISED VALUES AND VALUATION REPORTS

The considerations of the Disposals were determined and equivalent to the appraised values of Disposal Assets as at 31 December 2021 by the Valuer using the income approach based on the following computation formula:

The basic calculation formula for this valuation is:

$$E = B - D$$

Wherein: E: Value of total shareholders' equity of the appraised entity;

B: Overall Enterprise value of the appraised entity;

D: Value of the interest-bearing debt of the appraised entity;

Wherein: $B = P + C$

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Wherein: P: Value of operating assets of the appraised entity.

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i}$$

Wherein: R_i : Expected income of the valuation subject in the i th year of the income period;

r : Discount rate;

n : The income period of the valuation subject;

C : Value of surplus or non-operating assets (liabilities) of the appraised entity as at the reference date.

$$C = C_1 + C_2$$

Wherein: C_1 : Value of current surplus/non-operating assets (liabilities) as at the reference date;

C_2 : Value of non-current surplus/non-operating assets (liabilities) as at the reference date.

For further details of the appraised values of the Disposal Assets, please refer to the Valuation Reports contained in Appendix II to this circular.

The Directors consider that the assumptions and inputs as adopted by the Valuer are fair and reasonable and consider that there is unlikely to have any material change in the assumptions and inputs which are likely to materially affect the valuations of Disposal Assets. Furthermore, sensitivity analysis is not mandatorily required for the purpose of the valuations of the Disposal Assets under the relevant applicable laws and regulations. As such, sensitivity analysis is not prepared and included in the Valuation Reports.

INFORMATION OF THE PURCHASER

The Purchaser is a company established in the PRC with limited liability and, to the best knowledge of the Directors, is primarily engaged in environmental and ecological business fields such as environmental protection in nuclear power stations, water supply and drainage, hazardous and solid waste disposal, water treatment and biomass. The Purchaser is a wholly-owned subsidiary of China General Nuclear Power Corporation (中國廣核集團有限公司) and the ultimate beneficial owner of the Purchaser is the State-Owned Assets Supervision and Administration Commission of the State Council.

INFORMATION OF THE GROUP

The Group is one of the leading integrated service providers in the urban wastewater treatment and water supply industry in the PRC. The major business of the Company includes the investment, construction and management services in relation to urban water supply, wastewater treatment, solid waste treatment and environmental governance projects, equipment sales and other environmental protection related services.

LETTER FROM THE BOARD

INFORMATION OF HYFLUX WASTE WATER

Hyflux Waste Water was established on 28 May 2008 with a registered capital of USD7,930,000. Its business scope includes the construction and operation of wastewater and recycled water treatment plants and the provision of technical consultancy and services for the membrane process. As at the date of this circular, the Company indirectly held 100% equity interest of Hyflux Waste Water through its wholly-owned subsidiary, Hyflux Utility.

Set out below is the key audited financial information for the financial year ended 31 December 2020 and the key audited financial information for the financial year ended 31 December 2021 of Hyflux Waste Water, both prepared according to the PRC accounting standards.

	For the year ended/As at	
	31 December	31 December
	2020	2021
	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>
Operating revenue	20.0	19.9
Profit before tax	9.1	7.8
Profit after tax	6.8	5.9
Total assets	87.4	91.7
Net assets	56.2	62.1

INFORMATION OF YEJI YUNSHUI WATER

Yeji Yunshui Water was established on 17 December 2015 with a registered capital of RMB43,000,000. Its business scope includes the investment of general business projects including urban water supply and drainage, reclaimed water use, industrial wastewater, solid waste treatment and utilization, air pollution and prevention, river basin treatment, soil remediation and other environmental treatment projects, and management or entrusted management and operation of the invested projects or similar projects. As at the date of this circular, the Company held 100% equity interest in Yeji Yunshui Water.

Set out below is the key audited financial information for the financial year ended 31 December 2020 and the key audited financial information for the financial year ended 31 December 2021 of Yeji Yunshui Water, both prepared according to the PRC accounting standards.

	For the year ended/As at	
	31 December	31 December
	2020	2021
	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>
Operating revenue	18.8	20.5
Profit before tax	3.6	4.0
Profit after tax	3.6	4.0
Total assets	135.2	146.2
Net assets	40.9	44.1

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE DISPOSALS

Based on the strategic development and the internal management needs of the Company, the Company decides to proceed with the Disposals. The Directors believe that the Disposals will alleviate the ongoing financial difficulties of the Group and lower the debt level and asset-liability ratio of the Company.

As disclosed in the 2021 annual report of the Company, for the purpose of resolving the going concern issue which resulted in the disclaimer of opinion in the audit report for the consolidated financial statements of the Company for the year ended 31 December 2021, the Group has taken and will take certain plans and measures to mitigate the liquidity pressure and to improve its financial position, which include, among others, divesting certain of the Group's concession projects and construction projects. The Disposals are among the mitigating measures to enhance liquidity and capital structure of the Group and reduce overall financing expenses of the Group.

The Directors are of the view that the Disposals are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSALS AND USE OF PROCEEDS

Upon completion of the Disposals, both Hyflux Waste Water and Yeji Yunshui Water will cease to be subsidiaries to be accounted for in the financial results of the Company.

The Group is expected to record an unaudited loss on the Hyflux Disposal of approximately RMB19.7 million. Such unaudited loss is estimated based on gross proceeds from the Hyflux Disposal of approximately RMB96.5 million less the fair value of approximately RMB107.4 million as at 31 December 2021 of the net identifiable asset value of Hyflux Waste Water calculated continuously from the date of acquisition (being the net asset value calculated on the historical cost basis of approximately RMB62.1 million and an adjustment of approximately RMB45.3 million for the net identifiable asset value continuously calculated), and after deducting the direct cost of goodwill of RMB8.5 million and the expenses attributable to the Hyflux Disposal of approximately RMB0.3 million. Please note that the actual loss recorded by the Group from the Hyflux Disposal will be subject to the book value of Hyflux Waste Water accounted for in the financial statements of the Group upon completion of the Hyflux Disposal, and may therefore be different from the above amount.

The net proceeds from the Hyflux Disposal, after deducting the expenses directly attributable thereto, will amount to approximately RMB96.2 million. It is intended that the net proceeds from the Hyflux Disposal will be used for the Group's working capital.

The Group is expected to record an unaudited gain on the Yeji Disposal of approximately RMB12.7 million. Such unaudited gain is estimated based on gross proceeds from the Yeji Disposal of approximately RMB87.3 million less the fair value of approximately RMB74.3 million as at 31 December 2021 of the net identifiable asset value of Yeji Yunshui Water calculated continuously from the date of acquisition (being the net asset value calculated on the historical cost basis of approximately RMB44.1 million and an adjustment of approximately RMB30.2 million for the net identifiable asset value continuously calculated), and after deducting the expenses directly attributable to the Yeji Disposal of approximately RMB0.3 million. Please note that the actual gain recorded by the Group from the Yeji Disposal will be subject to the book value of Yeji Yunshui Water accounted for in the financial statements of the Group upon completion of the Yeji Disposal, and may therefore be different from the above amount.

LETTER FROM THE BOARD

The net proceeds from the Yeji Disposal, after deducting the expenses directly attributable thereto, will amount to approximately RMB87.0 million. It is intended that the net proceeds from the Yeji Disposal will be used for the Group's working capital.

The Disposals are estimated to result in a decrease of approximately RMB148.77 million in the total assets of the Group, a decrease of approximately RMB141.78 million in total liabilities of the Group, and a decrease of approximately RMB6.99 million in net assets of the Group, taking into account the net cash generated from the Disposals of approximately RMB183.22 million less net assets of Hyflux Waste Water and Yeji Yunshui Water as at 31 December 2021 of approximately RMB181.76 million and the goodwill of Hyflux Waste Water of approximately RMB8.45 million.

The total net proceeds from the Disposals will be approximately RMB183.2 million, which is intended to be used for the Group's working capital, of which (i) approximately RMB97 million will be allocated for staff cost for about 1.8 months; (ii) approximately RMB47 million will be allocated for fuel costs for production for about 1.8 months; and (iii) approximately RMB39.2 million will be allocated for material costs for production for about 1.8 months.

IMPLICATIONS OF THE LISTING RULES

Since the Yeji Equity Transaction Agreement is entered into within 12 months after the Hyflux Equity Transaction Agreement, and the Equity Transaction Agreements are both entered into with the Purchaser, the Yeji Disposal shall be aggregated together with the Hyflux Disposal to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rule.

As the highest applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposals, when aggregated, exceeds 25% but is less than 75%, the Disposals constitute major transactions under Chapter 14 of the Listing Rules, and are subject to reporting, announcement and Shareholders' approval requirements.

WRITTEN SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules) as at the date of this circular, none of the Shareholders has material interest in the Equity Transaction Agreements and the transactions contemplated thereunder, and therefore, no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Equity Transaction Agreements.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Disposals may be given by way of written Shareholders' approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposals; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who holds or together hold more than 50% of the voting rights at that general meeting to approve the Disposals.

LETTER FROM THE BOARD

Written Shareholders' approval for the Equity Transaction Agreements and the transactions contemplated thereunder has been obtained from the Closely Allied Group which together holds more than 50% of the issued Shares giving the right to attend and vote at a general meeting:

Name	Type of Shares	Number of Shares held	Approximate percentage of total number of Shares in issue
<i>Closely Allied Group</i>			
(1) Green Environmental Protection	Domestic Shares	358,757,162	30.07%
(2) Beijing OriginWater	Domestic Shares	286,650,000	24.02%
	<i>Sub-total</i>	<u>645,407,162</u>	<u>54.09%</u>
Mr. Yu Long	Domestic Shares/ H Shares	11,590,000	0.97%
Mr. Zhou Zhimi	Domestic Shares	325,000	0.03%
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) and its related party	Domestic Shares	132,447,873	11.10%
27 Management Shareholders	Domestic Shares	20,705,000	1.74%
Caiyun International Investment Limited	H Shares	8,449,000	0.71%
Public Shareholders	Domestic Shares/ H Shares	<u>374,289,422</u>	<u>31.37%</u>
	Total:	1,193,213,457 Shares	100%

Notes:

1. The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.
2. The above percentages may not be exact figures due to rounding and the shareholding may not add up to 100%.

Accordingly, no general meeting will be convened for the purposes of approving the Equity Transaction Agreements and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

The valuations of the Disposal Assets (the “**Valuations**”) were conducted by Allied Appraisal Co., Ltd. (中聯國際評估諮詢有限公司) (the “**Valuer**”), an independent PRC valuer, using the income approach. Accordingly, the Valuations constitute profit forecast under Rule 14.61 of the Listing Rules.

LETTER FROM THE BOARD

For the purpose of complying with Rules 14.60A and 14.62 of the Listing Rules, the details of the principal assumptions, including commercial assumptions, upon which the Valuations were based are as follows, details of which shall be referred to the Valuation Reports contained in Appendix II to this circular:

Basic Assumptions

1. Transaction assumption assumes that the valuation subject is in the course of transaction and the valuation assessed by the Valuer is based on a simulated market which involves the transaction conditions of the valuation subject. The valuation result is an estimate of the most likely transaction price of the subject to be valued.
2. Open market assumption assumes that the assets involved in the valuation subject are transacted in open market in which each of buyer and seller has equal status and has the opportunities and time to obtain sufficient market information. The transactions between the buyer and the seller are voluntary and carried out under reasonable, rational and non-conceived conditions.
3. It is assumed that if the economic behavior of the valuation purpose is realized, the assets involved in the valuation subject will continue to be used at the original site according to their purpose and usage on the valuation reference date.

Assumptions regarding Valuation Subject

1. In addition to the knowledge of the valuer, it is assumed that the purchase, acquisition, improvement, construction and development process of the assets involved in the valuation subject are in compliance with the relevant laws and regulations of the state.
2. Except to the extent known by the valuer, it is assumed that the assets involved in the valuation subject have no rights defects, liabilities and restrictions that affect their value.
3. In addition to the knowledge of the valuer, it is assumed that the land, buildings and other real estate involved in the valuation subject have no major defects that affect their continuous use, and there are no harmful substances that will adversely affect their value in the relevant assets, the location of the assets, and there are no hazardous substances and other adverse environmental conditions that would adversely affect the value of these assets.
4. The valuer has inspected the tangible assets such as the equipment involved in the valuation subject from the outside of its visible entity, and dutifully understood its internal problems, but due to technical constraints, the technical data, technical status, and structure of the relevant assets have not been investigated, appendages and other special technical inspection organizations. In addition to the valuer's knowledge, it is assumed that the machinery, vehicles, and electronic equipment involved in the valuation subject have no major technical failures that affect their continuous use, and that their key components and materials have no potential quality defects.
5. Unless otherwise specified in the report, it is assumed that the value of the valuation subject will not be affected by factors such as mortgages, guarantees, and special transaction methods that already exist or may be assumed in the future.
6. It is assumed that the valuation subject will not encounter other force majeure or unforeseeable factors that will have a significant adverse effect on its value.

LETTER FROM THE BOARD

7. It is assumed that all assets in the valuation are based on the actual stock on the valuation reference date, and the current market price of the relevant assets is based on the domestic effective price on the valuation reference date.

Assumptions regarding Business Operations and Forecasts

1. It is assumed that there are no major changes in the international financial and global economic environment, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located.
2. It is assumed that there will be no major changes in the social and economic environment and the implemented interest rates, exchange rates, tax bases and tax rates, and policy-related charges.
3. It is assumed that the country's current relevant laws and regulations, administrative policies, industrial policies, financial policies, tax policies and other policy environments are relatively stable. Unless otherwise stated, it is assumed that the assessed entity operates in full compliance with relevant laws and regulations.
4. It is assumed that the industry in which the valuation subject operates will maintain the currently known development direction and trend after the base date.
5. It is assumed that the valuation subject will continue to operate under the current industry conditions and market competition environment after the appraisal target economic behavior is realized.
6. The valuation is only based on the existing operating capacity of the appraised entity on the valuation reference date. It does not take into account the expansion of operating capabilities that may be caused by management, business strategies, and additional investment in the future, nor does it consider the impact of subsequent changes in production and operation that may occur; it is assumed that the assessed unit will maintain the total investment on the assessment base date, The level of financial leverage remained basically unchanged.
7. It is assumed that the valuation subject continues to operate at the current management level on the assessment base date, the management of the assessed entity is responsible and diligent, and the management is relatively stable and capable of performing its duties, regardless of major adjustments to the operator in the future nor the impact of major changes in management level on future expected earnings.
8. It is assumed that at any point in the continuous operation period of the valuation subject, the performance of its assets is different.
9. It is assumed that the cash inflow of the valuation subject after the valuation reference date is the average inflow, and the cash outflow is the average outflow.
10. It is assumed that the accounting policies adopted by the valuation subject in the future are basically consistent with the accounting policies adopted at the time of preparation of the report.
11. It is assumed that the management team of the valuation subject is performing its duties and operating in accordance with franchise-related matters.

LETTER FROM THE BOARD

12. It is assumed that the parties to the franchise and related supplementary agreements can abide by the terms of the agreement, the agreement can be carried out smoothly, and there will be no abnormal termination midway.
13. It is assumed that in the future forecast year, the water quality after the sewage treatment of the valuation subject meets the first-class standard A of the “Pollutant Discharge Standards for Urban Wastewater Treatment Plants” (GB18918-2002).
14. It is assumed that the assessed unit operates according to the term of the franchise agreement, and transfers the entire project assets to the government free of charge after expiration.

Other Assumptions

1. According to the “Asset Appraisal Law of the People’s Republic of China”, “the client shall be responsible for the authenticity, completeness and legality of the ownership certificate, financial accounting information and other materials provided by him”, assuming that the client has acted in accordance with the law.
2. It is assumed that the scope of the assessment is consistent with the assessment declaration form provided by the client and the valuation subject, without considering the impact of contingent assets and contingent liabilities that may exist on the appraisal conclusion beyond the detailed list of appraisal declaration provided by the client and the valuation subject.
3. It is assumed that the acquisition and utilization of the production and business sites required by the assessed object remain consistent with the assessment base date without any change.

Moore Stephens CPA Limited has been engaged by the Company to review the calculations of the discounted future cash flows upon which the Valuations was based on, which do not involve the adoption of accounting policies and the appropriateness and validity of the assumptions. The Board has reviewed and considered the Valuations including the principal assumptions upon which the Valuations were based. The Board has also considered the report from Moore Stephens CPA Limited. On the basis of the foregoing, the Board is of the opinion that the Valuations have been made after due and careful enquiry. A letter from the Board and a report from Moore Stephens CPA Limited are included in Appendix IV and Appendix III to this circular.

RECOMMENDATION

The Board considers that the terms of the Equity Transaction Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Had a special general meeting been convened for the approval of the Equity Transaction Agreements and the transactions contemplated thereunder, the Board would have recommended the Shareholders to vote in favour of the Equity Transaction Agreements and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
Yunnan Water Investment Co., Limited*
Mei Wei
Chairman

* For identification purposes only

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2021 and six months ended 30 June 2022 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yunnanwater.com.cn.

- (i) Annual report of the Company for the year ended 31 December 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802729.pdf>) (the “**2019 Annual Report**”)
- (ii) Annual report of the Company for the year ended 31 December 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042802606.pdf>) (the “**2020 Annual Report**”)
- (iii) Annual report of the Company for the year ended 31 December 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0530/2022053001087.pdf>) (the “**2021 Annual Report**”)
- (iv) interim report of the Company for the six months ended 30 June 2022 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0929/2022092900891.pdf>) (the “**2022 Interim Report**”)

WORKING CAPITAL

As at 31 December 2022, the Group’s current liabilities exceeded its current assets by approximately RMB6 billion (unaudited). In order to improve the Group’s financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress but not limited to, the followings:

- (i) For borrowings which will be maturing in the next 12 months from the date of this circular, the Group is actively negotiating with banks/lenders before they fall due to secure their renewals so as to ensure that the necessary funds will be in place to meet the Group’s working capital and financial requirements in the future will continue to be met;
- (ii) The Group will actively obtain additional new sources of financing as and when needed;
- (iii) The Group has plans to divest certain of the Group’s concession projects and construction projects; and
- (iv) The Directors are of the view that they have the ability to manage the progress of the projects from time to time and defer the payment schedule of the borrowings in these projects, if necessary.

If the Group fails to successfully implement the above measures, the Group will not have sufficient working capital for at least 12 months from the date of this circular.

Except for the potential impacts of the matters described above, in the absence of unforeseen circumstances, on the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, the directors of the Company are optimistic that the Group will be able to meet in full the Group's financial obligations as they fall due for the twelve months from the date of this circular.

INDEBTEDNESS

As at the close of business on 31 December 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as summarised below:

Borrowings

The Group's borrowings primarily consisted of short-term and long-term bank borrowings, corporate bonds and other borrowings.

As at the close of business on 31 December 2022, the Group had total outstanding borrowings of approximately RMB32,077 million, further details of which are set out below:

	As at 31 December 2022 <i>RMB'000</i>
Non-current	
Long-term bank borrowings	
— Secured	13,715,121
— Unsecured	3,248,466
	<hr/> 16,963,587
Corporate bonds and other borrowings	
— Secured	422,194
— Unsecured	9,585,295
	<hr/> 10,007,489
Current	
Short-term bank borrowings	
— Secured	19,810
— Unsecured	2,520
	<hr/> 22,330

	As at 31 December 2022 <i>RMB'000</i>
Current portion of long-term bank borrowings	
— Secured	93,739
— Unsecured	6,930
	<hr/>
	100,669
Current portion of corporate bonds and other borrowings	
— Unsecured	1,533,821
Amount due to Shareholders	
— Caiyun Investment	1,091,720
— YEPI	1,045,167
— YHTH	1,312,703
	<hr/>
	3,449,590
	<hr/>
Total	32,077,486
	<hr/> <hr/>

As at the close of business on 31 December 2022, the Group had borrowings of approximately RMB14,251 million in aggregate which were secured by pledge of the Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment and intangible assets and the Company's investments in subsidiaries, and approximately RMB298 million and RMB12,088 million of the Group's borrowings were guaranteed by PRC local government and related parties respectively. The amount due to Shareholders of approximately RMB3,450 million of the Group are unsecured, bear interest and repayable with agreed terms.

Lease liabilities

As at the close of business on 31 December 2022, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately RMB36.2 million in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 December 2022 being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

MATERIAL ADVERSE CHANGE

The Group recorded a loss attributable to the ordinary shareholders of the Company of approximately RMB494.0 million for the six months ended 30 June 2022, compared to a loss of approximately RMB311.6 million for the corresponding period in 2021. The Board believes that the change in results for the six months ended 30 June 2022 is primarily attributable to the decrease in the consolidated gross profit margin of the Group's solid waste and other business segments and the decrease in the revenue from construction services due to the resurgence of pandemic in China in the first half of 2022. For details, please refer to the profit warning announcement of the Company dated 22 August 2022 and the interim report of the Company for the six months ended 30 June 2022 published on 29 September 2022.

The Directors confirm that save as disclosed above, there was no material adverse change in the financial or trading position or outlook 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, and up to the Latest Practicable Date.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will take various measures to reduce debt ratio. Firstly, the Group will optimize the financing structure, and reduce the Company's financing pressure and liquidity risks by gradually adjusting the long-term and short-term debt structure. Secondly, the Group will strengthen the debt collection work, focus on ensuring the amount and time limit of remittances for projects in operation, to increase operating cash flow. Thirdly, the Group will also promote the asset disposal work in a timely manner, make overall arrangements for the partial disposal of scattered assets, integrate and optimize assets while recovering cash to reduce the asset-liability ratio, and improve management efficiency and operational quality.

The Group will continue to focus on operations to improve quality and efficiency, refine management standards, and promote energy conservation and consumption reduction. To this end, the Group will fully implement the scientific budgeting system, and reasonably calculate the operation indicators of each project based on the current operating conditions. The Group will also further strengthen checking and eliminate the unstable factors and hidden dangers of exceeding standards in the operation process, so as to realize the stable operation of the Group's projects in operation.

The Group will continue to enhance its innovation and sustainable development. According to the current market demand, the Group will improve the current core technologies, especially strengthen the development and promotion of our low-temperature adiabatic pyrolysis and carbonization technology of organic solid waste, and contribute to the reduction, harmlessness, stabilization and resource utilization of solid organic waste treatment. At the same time, the Group will continue to focus on new fields of resources and environment, reserve key core technologies, and lay a solid foundation for future development.

Looking forward, the Group will continue to adhere to the development goal of "based in Yunnan, covering the nation and going global, striving to be a leading integrated environmental services provider at the municipal level (立足雲南、面向全國、走向國際，致力成為領先的城鎮環境綜合服務商)", and overcome the current challenges and difficulties, grasp the industry development trend, improve the Group's operational capability, technical strength and core competitiveness, and create more returns on investment for its shareholders.

This asset valuation report has been prepared in accordance with the PRC Accepted Asset Valuation Standards

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
INVESTMENT CO., LIMITED* INVOLVING THE ENTIRE SHAREHOLDERS'
EQUITY IN HYFLUX NEWSRING WASTE WATER TREATMENT
(MINGGUANG) CO., LTD.***

(ZLGJPZ [2022] No. VIGPA0415)

ALLIED APPRAISAL CO., LTD.

31 October 2022

STATEMENT ON ASSET VALUATION REPORT

1. This asset valuation report has been prepared in accordance with the *Basic Standards for Asset Valuation* issued by the Ministry of Finance and the *Practice Standards and Professional Code of Ethics for Asset Valuation* issued by China Appraisal Society.
2. The entrusting party or other users of the asset valuation report shall use the asset valuation report in accordance with the provisions of laws, administrative regulations and within the scope of use set out in the asset valuation report. The asset valuation agency and its asset valuation professionals take no responsibility for any non-compliance with the above-mentioned requirements for the use of the asset valuation report by the entrusting party or other users of the asset valuation report.
3. The asset valuation report shall only be used by the entrusting party, other users of the asset valuation report agreed in the Asset Valuation Engagement Contract and the users of the asset valuation report stipulated by laws and administrative regulations. Save for the above, any other institution and individual shall not become the users of the asset valuation report.
4. The users of the asset valuation report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equal to the realizable price of the valuation subject, and the valuation conclusion should not be considered as the guarantee for the realizable price of the valuation subject.
5. The users of the asset valuation report shall pay attention to the assumptions and premises of the valuation conclusion, the explanations to special matters and the restrictions on use of the asset valuation report.
6. The list of assets and liabilities included in the valuation scope as well as the predictive financial information and ownership certificates required for the valuation have been provided by the entrusting party and other relevant parties and confirmed with seals or other methods. The entrusting party shall be responsible for the authenticity, integrity and legality of the ownership certificates, financial and accounting information and other information provided by it according to law.
7. Although the asset valuation agency and its asset valuation professionals have checked and verified the relevant ownership certificates of the asset valuation subject, they are unable to guarantee its legal ownership.
8. The asset valuation agency and its asset valuation professionals shall abide by the laws, administrative regulations and the asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and assume responsibility for the asset valuation report issued according to law.

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
INVESTMENT CO., LIMITED* INVOLVING THE ENTIRE SHAREHOLDERS'
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(MINGGUANG) CO., LTD.***

(ZLGJPZ [2022] No. VIGPA0415)

SUMMARY

Important Notice

This summary has been extracted from the main body of the asset valuation report. To understand the details of the valuation project and understand the valuation conclusion correctly, you should carefully read the main body of the asset valuation report.

According to the engagement, Allied Appraisal Co., Ltd. has conducted a valuation on the valuation subject corresponding to the valuation purpose by adhering to the principles of independence, objectivity and impartiality, adopting appropriate valuation approaches, and following the necessary valuation procedures in accordance with the provisions of laws, administrative regulations and the asset valuation standards. The summary of the asset valuation is as follows:

Entrusting party: Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司).

Appraised entity: Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (凱發污水處理(明光)有限公司).

Relevant economic activities: According to the *Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.** (《關於雲南水務投資有限公司擬轉讓六安市葉集區雲水水務投資有限公司及凱發污水處理(明光)有限公司100%股權專題會議紀要》) (Issue 66) held by Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (the superior entity of the entrusting party) on 27 May 2022 and the relevant approvals, as well as the *Resolution of the 200th Meeting of the First Session of Board of Directors* (《第一屆董事會第200次會議決議》) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (YKLDJTZ [2022] No. 11) on 20 June 2022, the transfer of 100% equity of Yunnan Water Investment Co., Limited* in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* through public tender was hereby agreed.

Valuation purpose: to provide the reference for the market value of the valuation subject for the purpose of the proposed equity transfer by the entrusting party.

Valuation subject: the value of entire shareholders' equity in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*.

Valuation scope: all assets and related liabilities owned by Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* on the Valuation Reference Date, including current assets, intangible assets, fixed assets, long-term deferred expenses and other assets and corresponding liabilities, as well as the overall intangible assets not stated in the account.

Value type: market value.

Valuation Reference Date: 31 December 2021.

Valuation methodology: income approach and asset-based approach.

Valuation conclusion: after considering the applicability of the valuation methodology, the valuation purpose and the valuation subject, the valuation results of the income approach has been selected as the valuation conclusion.

Based on the judgment of the management of the appraised entity on the future development trend and the business planning, the valuation conclusion of the market value of the entire shareholders' equity in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* on the Valuation Reference Date is as follows: the book value was Renminbi sixty-two million one hundred and thirteen thousand two hundred (RMB62,113,200); the appraised value amounted to Renminbi ninety-six million five hundred and twenty-three thousand (RMB96,523,000); representing an increase of Renminbi thirty-four million four hundred and nine thousand eight hundred (RMB34,409,800) with an appreciation rate of 55.40%.

Validity period of the valuation conclusion: according to the asset valuation standards and relevant regulatory provisions, on the basis that there is no significant change in the valuation assumptions and restrictions set out in this report, generally, this valuation report can be used when the difference between the Valuation Reference Date and the date of realization of economic activities is not more than one year, that is, from 31 December 2021 to 30 December 2022.

Special matters affecting the valuation conclusion:

During the valuation, the valuers found that one of the assets included in the valuation subject has the name of the obligee stated in the land use right certificate inconsistent with that of the actual user. The land use right was obtained by Anhui Mingguang Limin Water Treatment Co., Ltd.* (安徽省明光市利民水處理有限責任公司) in 2007 through allocation, and the land use right certificate has been issued with the certificate number of "Mingguoyong (2007) No. 0133". The land has an area of 43,699.58 square meters and is for industrial use. The land is located in Xiaowei, Huyuan Village, Zhaoxin Town, Mingguang City. The buildings on the land mainly include comprehensive office building, machine maintenance and logistics room, power distribution room and other buildings, as well as wastewater treatment facilities such as oxidation ditch, secondary sedimentation tank and dehydration machine room.

The land use right certificate states that the obligee is Anhui Mingguang Limin Water Treatment Co., Ltd.*, and the actual user is Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*. At the same time, as of the Valuation Reference Date, the completed buildings included in the valuation scope have not yet obtained relevant property right certificates.

According to the introduction of the appraised entity, failure to handle the ownership change of the land use right and failure to handle the property right certificate of the buildings are mainly due to historical reasons. According to the franchise transfer agreement, "after payment of the franchise fee by the appraised entity, it can use all the assets of the project during the franchise period." To sum up, the land use right, the building use right and other rights and interests are actually held by the appraised entity, and the property has been used normally without any property right dispute as of the Valuation Reference Date. Due to the less handling fees required for the above registration of ownership change, the impact of the fees for registration of ownership change on the asset value has not been considered in the valuation.

Application of valuation conclusion:

The valuation conclusion disclosed in the summary of the valuation report is used as the reference for the entrusting party to realize the relevant economic activities, but it does not guarantee the realization of the relevant economic activities. It is only used by the entrusting party and other users of the report for the purpose of the valuation described in the report within the validity period of the valuation conclusion.

When using the valuation conclusion, the users of the valuation report are specially reminded to pay attention to the impact of the valuation assumptions, explanations to special matters, limiting conditions and subsequent major events on the valuation conclusion stated in the main body of the valuation report, and to properly use the valuation report.

Unless otherwise specified by laws and regulations, the content of this summary shall not be extracted, quoted or disclosed to the public media without the written consent of the valuation agency and the signed asset valuers.

According to the relevant laws and regulations on asset valuation, the asset valuation report involving legal valuation business shall be used after the entrusting party has performed the supervision and management procedures for asset valuation in accordance with the laws and regulations.

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
INVESTMENT CO., LIMITED* INVOLVING THE ENTIRE SHAREHOLDERS'
EQUITY IN HYFLUX NEWSRING WASTE WATER TREATMENT
(MINGGUANG) CO., LTD.***

(ZLGJPZ [2022] No. VIGPA0415)

To Yunnan Water Investment Co., Limited*:

According to the engagement, Allied Appraisal Co., Ltd. has conducted a valuation on the market value of the proposed equity transfer of Yunnan Water Investment Co., Limited* involving the entire shareholders' equity in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* on 31 December 2021 by adhering to the principles of independence, objectivity and impartiality, adopting the income approach and asset-based approach, and following the necessary valuation procedures in accordance with the provisions of laws, administrative regulations and the asset valuation standards. The asset valuation is reported as follows:

**I. THE ENTRUSTING PARTY, THE APPRAISED ENTITY AND OTHER USERS
OF THE ASSET VALUATION REPORT AGREED IN THE ASSET VALUATION
ENGAGEMENT CONTRACT**

(I) Entrusting Party

Name: Yunnan Water Investment Co., Limited*

Unified social credit code: 915301005772605877

Legal address and business place: Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province

Legal representative: Li Bo

Registered capital: RMB1,193,213,457

Date of establishment: 21 June 2011

Operation duration: 21 June 2011 to no fixed term

Business scope: investment in urban water supply, wastewater treatment, reclaimed water reuse and environmental governance projects of water solid waste treatment and management of the invested projects; technical consultation on environmental governance; sales of environmental protection equipment (projects that need to be approved according to law can only be operated after being approved by relevant authorities)

(II) Appraised Entity**1. Basic information**

Name: Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*

Unified social credit code: 91341100675859884R

Legal address and business place: Southeast of Mingguang City, Anhui Province

Legal representative: Shi Mingjie

Registered capital: USD7.93 million

Date of establishment: 28 May 2008

Operation duration: 28 May 2008 to 27 May 2038

Business scope: construction and operation of wastewater and reclaimed water treatment plants; provide technical consultation and service for membrane process. (projects that need to be approved according to law can only be operated after being approved by relevant authorities)

Name of shareholder(s), amount and proportion of capital contribution

No.	Name of shareholder(s)	Subscribed capital contribution (USD0'000)	Paid in capital contribution (USD0'000)
1	Hyflux Utility WWT (MG) Limited	793.00	368.00
	Total	793.00	368.00

2. Historical changes in shareholders' equity, property rights and operation structure**(1) Historical changes in shareholders, shareholding proportion and equity**

The company was established with the approval of Chuzhou Municipal Bureau of Commerce on 27 May 2008 by the document of Chu Shang Shen Zi [2008] No. 095, and the *Approval Certificate of the People's Republic of China for Enterprises with Foreign Investment* (《中華人民共和國外商投資企業批准證書》) issued by the People's Government of Anhui Province on 27 May 2008 by the document of Shang Wai Zi Wan Fu Zi Zi [2008] No. 118, and was funded by Hyflux Utility WWT (MG) Limited. On 28 May 2008, the company obtained the business license for enterprises as legal person (No.

341100400001877 (1-1)) issued by Chuzhou Administration for Industry and Commerce. The registered capital at the time of establishment was USD3.68 million. In 2015, the company applied to increase the registered capital by USD4.25 million, and the registered capital after change was USD7.93 million. The shareholder(s) and shareholding proportion after the change are as follows:

Name of shareholder(s), amount and proportion of capital contribution

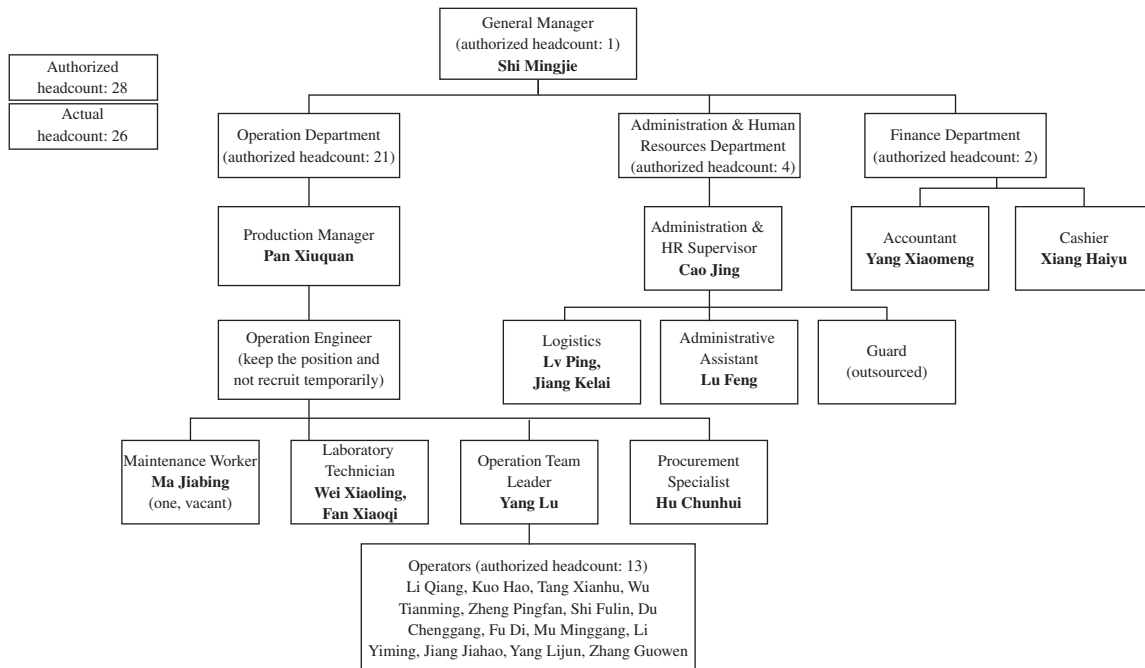
No.	Name of shareholder(s)	Subscribed capital contribution (USD0'000)	Paid in capital contribution (USD0'000)
1	Hyflux Utility WWT (MG) Limited	793.00	368.00
	Total	793.00	368.00

As of the Valuation Reference Date, the amount of capital contribution and shareholding proportion of each shareholder have not changed.

(2) Corporate property rights and operation structure

As of the Valuation Reference Date, the appraised entity has no branches or foreign investment entities;

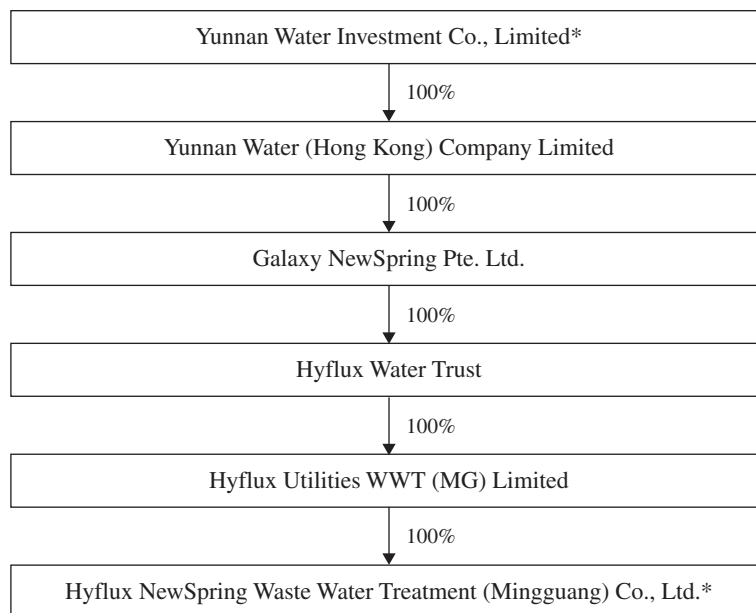
As of the Valuation Reference Date, the appraised entity has certain departments, including Operation Department, Finance Department, Administration & Human Resources Department. The organizational chart of the appraised entity is as follows:



3. Relationship between the entrusting party and the appraised entity

The entrusting party of the asset valuation is Yunnan Water Investment Co., Limited*, and the appraised entity is Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*. The entrusting party indirectly holds 100% of the equity in the appraised entity and is the controlling shareholder of the appraised entity. The shareholding structure chart of the appraised entity is as follows:

Shareholding Structure Chart of Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*



4. Assets, finance and operation status in the past three years

(1) Assets and financial position in the past three years

The assets and financial position of the company in the past three years and on the Valuation Reference Date are as follows:

Summary of assets, liabilities and financial position

Item	Currency Unit: RMB0'000		
	31 December 2019	31 December 2020	31 December 2021
Total assets	8,082.73	8,737.08	9,165.67
Total liabilities	3,142.44	3,113.34	2,954.35
Shareholders' equity	4,940.30	5,623.74	6,211.32

Item	2019	2020	2021
Operating income	1,899.49	2,003.41	1,993.50
Total profit	361.11	914.01	784.03
Net profit	281.52	683.45	587.58
Net cash flow from operating activities	1,333.22	886.59	749.15
Net cash flow from investment activities	-325.61	-87.87	-7.99
Net cash flow from financing activities	-1,540.54	-802.02	-739.12
Audit opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion

Note: The financial data from 2019 to 2021 are extracted from the audit report of Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (Da Hua Shen Zi [2022] No. 006642) issued by Da Hua Certified Public Accountants (Special General Partnership).

(2) Operation status

The appraised entity is located in the southeast of Mingguang City, its plant covers an area of 43,699 square meters, and is a comprehensive urban wastewater treatment plant, mainly responsible for the centralized treatment of domestic wastewater in Beicheng District and industrial wastewater from some enterprises in the old industrial park.

According to the *Agreement on Franchise Rights for the Wastewater Treatment TOT Project in Mingguang City, Anhui Province** (《安徽省明光市污水處理TOT項目特許經營權協議》) signed between the Municipal People's Government of Mingguang City, Anhui Province (hereinafter referred to as "Party A") and Hyflux Utility WWT (MG) Limited (hereinafter referred to as "Party B"), Hyflux Utility WWT (MG) Limited shall establish a project company (the appraised entity), Party A shall hand over a 30,000 ton/day wastewater treatment plant of Phase I and relevant data to the project company, and the project company shall pay a franchise fee of RMB38 million. In 2008, Party A granted the project company with a 30-year franchise right to implement the Mingguang Wastewater Treatment TOT Project from 1 July 2008 to 30 June 2037. According to the *Supplementary Agreement to the Agreement on Franchise Rights for the Wastewater Treatment TOT Project in Mingguang City, Anhui Province** (《安徽省明光市污水處理TOT項目特許經營權協議之補充協議》) signed between Party A and the appraised entity, the 30,000 ton/day project of Phase I was proposed for reconstruction, and the 20,000 ton/day plant of Phase II was proposed to newly build. The appraised entity completed the expansion of Phase II and the proposed reconstruction of Phase I in October 2013.

(3) Main tax categories and tax rates of the appraised entity

Tax category	Tax basis	Tax rate
Value added tax	Taxable sales	6% or 3%
Urban maintenance and construction tax	Paid in turnover tax	5%
Education surcharges	Paid in turnover tax	3%
Local education surcharges	Paid in turnover tax	2%
Corporate income tax	Taxable income	25%

(III) Users of the Valuation Report other than the Entrusting Party

According to the Asset Valuation Engagement Contract, the users of this valuation report are the entrusting party and the users of the valuation report stipulated by national laws and regulations.

Unless otherwise specified in national laws and regulations, any institution or individual not confirmed by the valuation agency and the entrusting party shall not become the users of the valuation report due to receiving the valuation report.

II. VALUATION PURPOSE

According to the *Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.** (《關於雲南水務投資有限公司擬轉讓六安市葉集區雲水水務投資有限公司及凱發污水處理(明光)有限公司100%股權專題會議紀要》) (Issue 66) held by Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (the superior entity of the entrusting party) on 27 May 2022 and the relevant approvals, as well as the *Resolution of the 200th Meeting of the First Session of Board of Directors* (《第一屆董事會第200次會議決議》) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (YKLDJTZ [2022] No. 11) on 20 June 2022, the transfer of 100% equity of Yunnan Water Investment Co., Limited* in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* through public tender was hereby agreed. To this end, asset valuation is required.

This asset valuation report is aimed to provide value reference for the economic activities related to the proposed equity transfer by the entrusting party.

III. VALUATION SUBJECT AND VALUATION SCOPE**(I) Valuation Subject and Valuation Scope**

The valuation subject is the value of the entire shareholders' equity in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*.

The valuation scope covers all the assets and liabilities owned by Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* on the Valuation Reference Date of 31 December 2021, including current assets, intangible assets, fixed assets, long-term deferred expenses and other assets and corresponding liabilities, as well as the overall intangible assets not stated in the account. The balance sheet on the Valuation Reference Date is as follows:

	Audited amount on Valuation Reference Date	Liabilities and shareholders' equity	Currency Unit: RMB Audited amount on Valuation Reference Date
Assets			
Current assets:		Current liabilities:	
Monetary capital	468,863.82	Short term borrowings	
Financial assets held for trading		Financial liabilities held for trading	
Notes receivable		Notes payable	
Accounts receivable	1,976,089.61	Accounts payable	1,577,097.45
Prepayment	1,092,002.98	Advances from customers	

Assets	Audited amount on Valuation Reference Date	Liabilities and shareholders' equity	Audited amount on Valuation Reference Date
Interests receivable		Payroll payable	205,023.70
Dividends receivable		Taxes payable	932,721.47
Other receivables	32,632,989.72	Interests payable	
Inventory	227,666.81	Dividends payable	
Non-current assets due within one year		Other payables	26,828,659.35
Other current assets	2,366,359.04	Non-current liabilities due within one year	
Total current assets	38,763,971.98	Other current liabilities	
Non-current assets:		Total current liabilities	29,543,501.97
Financial assets held for sale		Non-current liabilities:	
Held-to-maturity investments		Long term borrowings	
Long-term receivables		Bonds payable	
Long term equity investment		Long term payables	
Investment properties		Special payables	
Fixed assets	196,308.06	Estimated liabilities	
Construction in progress		Deferred income tax liabilities	
Engineering materials		Other non-current liabilities	
Disposal of fixed assets		Total non-current liabilities	0.00
Productive biological assets		Total liabilities	29,543,501.97
Oil and gas assets		Shareholders' equity:	
Intangible assets	52,277,362.67	Paid in capital (or share capital)	51,160,368.00
Development expenditures		Capital reserve	
Goodwill		Less: treasury shares	
Long term deferred expenses	419,016.34	Special reserve	
Deferred income tax assets		Surplus reserve	1,804,614.42
Other non-current assets		Undistributed profits	9,148,174.66
Total non-current assets	52,892,687.07	Translation difference of foreign currency statements	
Total assets	91,656,659.05	Total shareholders' equity	62,113,157.08
		Total liabilities and shareholders' equity	91,656,659.05

The entrusted valuation subject and valuation scope are consistent with those involved in economic activities. The assets and liabilities included in the valuation scope have been audited by Da Hua Certified Public Accountants (Special General Partnership) on the basis of the financial statements, and the valuation has been conducted based on the audited financial statements of the appraised entity.

(II) Overview of Book Assets with Greater Impact on the Valuation Subject**1. Other receivables**

The book value of other receivables was RMB32,632,989.72, the provision for bad debts was RMB nil, and the net book value was RMB32,632,989.72, mainly including the accounts and interests receivable from Shandong Environmental Protection Industry Investment and Development Co., Ltd.* (山東省環保產業投資發展有限公司), Kaijing Water Treatment Operation and Management (Shanghai) Co., Ltd.* (凱井水處理運營管理(上海)有限公司), Mingguang Yunshui Water Industry Co., Ltd.* (明光雲水水務產業有限公司), Yunnan Water Capital Center* (雲南水務資金中心) and other related parties, as well as the withholding of social insurance. The book value was RMB32,632,989.72 in total.

2. Non-current assets

Non-current assets refer to the asset group consisting of the franchise rights owned by the appraised entity, mainly including fixed assets, intangible assets, long-term deferred expenses and other non-current assets. The franchise right refers to a 30-year franchise right granted by the Municipal People's Government of Mingguang City, Anhui Province to the appraised entity to implement the Mingguang Wastewater Treatment TOT Project from 1 July 2008 to 30 June 2037, including Phase I, the proposed reconstruction of Phase I and expansion project of Phase II. The book value was RMB52,892,687.07 in total.

(III) Off Balance Sheet Assets Reported by the Appraised Entity

The appraised entity has not separately reported its off balance sheet assets.

(IV) Assets Involved in the Reference to the Report Conclusions Issued by Other Institutions

All the valuation work of this project has been conducted by Allied Appraisal Co., Ltd. The valuation process does not involve in the reference of the asset value to the report conclusions issued by any other valuation institution.

IV. VALUE TYPE AND ITS DEFINITION

Analysis from the perspective of economic activities and valuation purpose: based on the consideration of economic activities, the purpose of this valuation is to provide the reference opinions of the valuation subject for the related parties to the economic activities. All parties are on an equal position, and their economic activities are normal and fair market transactions. Generally, trading at market value is acceptable to all parties to the transaction;

Analysis from the perspective of market conditions: with the continuous development of market-oriented economy, asset transactions are becoming increasingly frequent, and trading at market value has been accepted by more and more investors;

Analysis from the correlation between the value type selection and the valuation assumptions: the valuation assumptions for this valuation are set based on the simulation of a completely open and fully competitive market, that is, the purpose of setting the valuation assumptions is to exclude the impact of non-market factors and abnormal factors on the valuation results;

Analysis from the practice of value type selection: when there are no special restrictions and requirements on market conditions and the use of the valuation subject, the market value should be selected as the value type of the valuation conclusion.

Therefore, the value type selected for this valuation is market value.

The market value is defined as the estimated amount of the value for which the valuation subject should exchange on the Valuation Reference Date between a willing buyer and a willing seller in a normal and arm's length transaction, where the parties have each acted rationally without compulsion.

V. VALUATION REFERENCE DATE

1. The Valuation Reference Date for the asset valuation of this project is 31 December 2021;
2. The Valuation Reference Date is determined by the entrusting party;
3. The prices adopted in the valuation are all the standards on the Valuation Reference Date.

VI. VALUATION BASIS

The valuation basis for this assets valuation mainly includes basis of economic activities, basis of laws and regulations, basis of valuation standards and norms, basis of asset ownership, and basis of pricing used in the valuation and estimation, the details are as follows:

(I) Basis of Economic Activities

1. Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (Issue 66) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* and relevant approval;
2. Resolution of the 200th Meeting of the First Session of Board of Directors of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. * (YKLDJTZ [2022] No. 11).

(II) Basis of Laws and Regulations

1. The Company Law of the People's Republic of China (Order No. 42 of the President of the People's Republic of China);
2. The Civil Code of the People's Republic of China (Adopted at the Third Session of the Thirteenth National People's Congress on 28 May 2020);
3. The Asset Appraisal Law of the People's Republic of China (Order No. 46 of the President of the People's Republic of China);
4. The Law of the People's Republic of China on the State-Owned Assets of Enterprises (Order No. 5 of the President of the People's Republic of China);
5. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council of the People's Republic of China);

6. Interim Measures for Appraisal and Management of State-owned Assets by Enterprises (Decree No.12 of the State-owned Assets Supervision and Administration Commission of the State Council);
7. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (Decree No. 32 of SASAC and the Ministry of Finance);
8. The Circular on Strengthening Appraisal and Management of State-owned Assets by Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
9. Notice on the Relevant Matters Concerning the Audit of Valuation Reports of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
10. Guidelines for Filing State-owned Assets Appraisal Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
11. Notice on Matters Concerning the Transfer of Transactions of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan Gui [2022] No. 39);
12. The Accounting Law of the People's Republic of China (Order No. 24 of the President of the People's Republic of China);
13. Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (Decree No. 691 of the State Council);
14. Notice from the National Development and Reform Commission, State Administration of Taxation, the Ministry of Finance, in relation to the Directory for Projects of Environmental Protection and Energy-Saving entitled to Enterprise Income Tax Preferential (Trial) Policy (Cai Shui [2009] No. 166);
15. Notice on Directory of VAT Concessions on Comprehensive Utilization of Goods and Services issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78);
16. Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);
17. Enterprise Income Tax Law of the People's Republic of China (revised at the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017);
18. Notice on the Interim Measures for the Administration of the Evaluation of State-owned Assets of Provincial Enterprises in Yunnan Province (YGZCQ [2018] No. 147);
19. Notice on the Guidelines for the Filing of State-owned Assets Evaluations of Provincial Enterprises in Yunnan Province (YGZCQ [2018] No. 149);
20. Notice on Issuance of the Interim Measures for Financial Administration of PPP Projects (Cai Jing [2016] No. 92);

21. The Securities Law of the People's Republic of China (revised at the 15th meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);
22. The General Rules for Finance Matters of Enterprises (Decree No. 41 of the Ministry of Finance).

(III) Basis of Valuation Standards

1. Basic Rules for Asset Appraisal (Cai Zi [2017] No. 43);
2. Practice Guidelines for Asset Valuation — Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
3. Practice Guidelines for Asset Valuation — Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
4. Practice Guidelines for Asset Valuation — Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
5. Practice Guidelines for Asset Valuation — Enterprise Value (Zhong Ping Xie [2018] No. 38);
6. Practice Guidelines for Asset Valuation — Intangible Assets (Zhong Ping Xie [2017] No. 37);
7. Practice Guidelines for Asset Valuation — Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
8. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
9. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);
10. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Basis of Ownership

1. Pollution Discharge Permit;
2. Motor Vehicle Driving Permit;
3. Agreement on Franchise Rights for the Wastewater Treatment TOT Project in Mingguang City, Anhui Province; Supplementary Agreement to the Agreement on Franchise Rights for the Wastewater Treatment TOT Project in Mingguang City;
4. Official Approval on the Establishment of the Reconstruction and Expansion of Mingguang Wastewater Treatment Plant and Supporting Pipe Network Project;
5. Fixed assets purchase invoice, contract agreement and relevant approval documents;
6. Business contracts, agreements and invoices related to enterprise operation;

7. Detailed list of assets inspection and evaluation provided by the entrusting party and the appraised entity;
8. Other supporting information which can prove the acquisition and transfer of ownership, including financial account books, receipt and withdrawal voucher.

(V) Basis of Pricing

1. Audit reports, financial statements, predictive financial information, asset declaration statements and relevant asset purchase and construction materials provided by the entrusting party or the appraised entity;
2. The future income forecast materials provided by the entrusting party and other relevant parties according to law;
3. Manual of Asset Valuation Methods and Parameters (published by Beijing Science and Technology Press) and relevant risk coefficients data;
4. Statistical data issued by the National Bureau of Statistics, relevant national departments and industry associations;
5. The latest version of the Enterprise Performance Evaluation Standards formulated by The Statistical Evaluation Bureau of the State-owned Assets Supervision and Administration Commission of the State Council;
6. Public information of relevant listed companies;
7. Statistics of Shanghai Wind Information Co., Ltd.* (WIND Information);
8. Bond trading information published on China Bond Information Network (www.chinabond.com.cn);
9. The People's Bank of China authorizes the National Interbank Funding Center to publish the loan market quoted interest rate close to the Valuation Reference Date;
10. Technical standards issued by relevant national departments;
11. Recent market transaction price information of machinery, equipment and materials, and inquiry results on the Internet and telephone;
12. Site investigation, verification and market research materials by the valuers.

(VI) Other References

1. Accounting Standards for Business Enterprises — Basic Standards (Decree No. 33 of the Ministry of Finance);
2. Accounting Standards for Business Enterprises — Application Guide (Cai Kuai [2006] No. 18);
3. Audit Report of Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (Da Hua Shen Zi [2022] No. 006642) issued by Da Hua Certified Public Accountants (Special General Partnership).

VII. VALUATION METHODOLOGY**(I) Basic Methods of Enterprise Value Assets Valuation**

According to the asset valuation standards, the basic methods of enterprise value asset valuation include market approach, income approach and cost approach (asset-based approach).

1. Market Approach

The market approach refers to the valuation method of determining the valuation subject by comparing the valuation subject with the comparable listed companies or comparable transaction cases. The preconditions for the application of the market approach are:

- (1) The comparable reference subjects of the valuation subject have an open market and active transactions;
- (2) The necessary information about the transaction is available.

2. Income Approach

The income approach refers to the method of capitalization or discounting the expected income of the enterprise to determine the valuation subject. The preconditions for the application of the income approach are:

- (1) The future income of the valuation subject can be reasonably expected and measured in currency;
- (2) The risk corresponding to the expected income can be measured;
- (3) The income period can be determined or reasonably expected.

3. *Asset-based Approach*

Asset-based approach refers to the method of reasonably valuating the value of various assets and liabilities on and off the balance sheet of the appraised entity based on the balance sheet of the appraised entity on the Valuation Reference Date, and determining the valuation subject. The preconditions for the application of the asset-based approach are:

- (1) The valuation subject can be used normally or in use;
- (2) The valuation subject can be obtained through replacement;
- (3) The replacement cost and related depreciation of the valuation subject can be reasonably estimated.

(II) Selection of Valuation Methodology

The type of asset value in this valuation is market value. Therefore, the goal of asset valuation is to reflect the fair market value of assets. As a means to reflect the fair market value of assets, the market approach is undoubtedly the first selection for asset valuation. Formally, the income approach does not seem to be a direct method to estimate the fair market value of assets, but it is a direct method to assess the value of assets from the perspective of the expected income of assets, which is the basic element of determining the fair market value of assets. It is in line with the value concept under the conditions of market economy. Therefore, the income approach is also a direct method to assess the value of assets. Compared with the market approach and income approach, the asset-based approach reflects the asset value from the perspective of acquisition and construction costs, and its perspective and approach to estimating the fair market value of assets are indirect.

The basic methods of valuation are to show the value of assets from different angles. Whether the value of the valuation subject is obtained by comparing with the market reference object, or by discounting the expected income of the valuation subject, or judging the value of the valuation subject according to the way of asset re-acquisition, it is a description of the value of the valuation subject under certain conditions from a certain point of view, and they are intrinsically related and can be replaced by each other.

1. *Analysis on the applicability of market approach*

As it is difficult to find many recent transaction cases in the enterprise property rights trading market that belong to the same industry as the appraised entity, or are affected by the same economic factors, and are comparable with the appraised entity in terms of business structure, business model, enterprise scale, asset allocation and use, business stage, growth, operational risk, financial risk and other factors, or there are very few transaction cases but lack of data and information on transactions, acquisitions and mergers with trading partners; At the same time, there is also a lack of comparable listed companies in the public stock market, so it is difficult to use the market approach to evaluate the valuation subject.

2. *Analysis on the applicability of income approach*

As the main business of the appraised entity is wastewater treatment, according to the franchise agreement, the future income situation is relatively clear. In combination with the human resources, technical level, capital structure, business status, historical performance and development trend of the appraised entity, and considering macroeconomic factors, the current situation and development prospects of the industry, the valuation assumptions are reasonably determined to form a future income forecast;

At the same time, the income period can be determined according to the agreed operating period of the franchise; In addition, the risk corresponding to the expected income can be measured by taking into account the relevant information of the capital market such as the interest rate level and the market investment yield on the reference date, the industry of the appraised entity, its specific risks and other relevant factors. Therefore, the income approach can be used for valuation.

3. *Analysis on the applicability of asset-based approach*

As the asset-based approach indirectly reflects the enterprise value from the perspective of enterprise acquisition and construction costs, it is easy to ignore the comprehensive profitability of various assets, as well as the overall value contained in the enterprise's business scale, industry status and mature management model when evaluating the enterprise value. When evaluating the enterprise on the premise of continuous operation, the asset-based approach should generally not be the only valuation method used. Therefore, this valuation adopts the income approach and the asset-based approach, which take the appraised entity as an organic whole and consider the overall asset profitability.

4. *Selection of valuation methods*

According to the asset valuation standards, when the conditions for adopting different valuation methods are met, the asset valuation professionals should choose two or more valuation methods and form a reasonable valuation conclusion through comprehensive analysis. In combination with the above analysis, this valuation adopts the income approach and the asset-based approach.

(III) Introduction to Valuation Using Income Approach

The specific methods commonly used in income approach include dividend discount method and cash flow discount method. The dividend discount method is a specific method for discounting the expected dividend to determine the value of the valuation subject, which is usually applicable to the valuation of the value of part of the equity of shareholders lacking control. The cash flow discount method usually includes the enterprise free cash flow discount model and the equity free cash flow discount model. The cash flow discount model is properly selected according to the future business model, capital structure, asset use status and future income development trend of the enterprise. As the valuation subject is the value of all shareholders' equity of the appraised entity, it is applicable to the discounted cash flow method (DCF).

1. *Basic valuation methods*

According to the valuation findings, assets composition and characteristics of the principal business of the appraised entity, this valuation estimates the value of the appraised entity on the basis of the statement analysis of the appraised entity. The basic considerations are as follows:

- (1) For assets included in the statement, to classified into operating assets, surplus assets, non-operating assets and liabilities, and adjusted into corresponding statements. Surplus assets, non-operating assets and liabilities include the monetary capital required for non-routine operations existing on the reference date, current assets or liabilities such as current accounts generated from non-operating activities of enterprises, non-operating foreign investment, inactive or idle equipment and other non-current assets or liabilities;
- (2) For the assets and main businesses included in the corresponding statements of operational assets, the expected income is estimated separately according to the change trend of the operating conditions before and after the reference date and the type of business, and the value of operational assets is calculated using the income approach valuation model;

- (3) Surplus assets, non-operating assets and liabilities that are not included in the scope of the operating assets statement are not considered in the expected income estimation and the income approach valuation, and their values are separately valued using the market approach or the cost approach;
- (4) The value of all shareholders' equity of the appraised entity is obtained by adding the above operating assets, surplus assets and non-operating assets and deducting the surplus/non-operating liabilities.

2. *Selection of Income approach valuation model*

Considering the business operation history, capital structure and financial information of the appraised entity, especially the future business model, income stability and development trend, expected changes in capital structure and asset use, we adopt the enterprise free cash flow discount model for valuation and calculation.

3. *Calculation formula of income approach*

The basic calculation formula for this valuation is:

$$E = B - D$$

Wherein: E: Value of total shareholders' equity of the appraised entity;

B: Overall Enterprise value of the appraised entity;

D: Value of the interest-bearing debt of the appraised entity;

Wherein: $B = P + C$

Wherein: P: Value of operating assets of the appraised entity.

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i}$$

Wherein: R_i: Expected income of the valuation subject in the ith year of the income period;

r: Discount rate;

n: The income period of the valuation subject;

C: Value of surplus or non-operating assets (liabilities) of the appraised entity as at the reference date.

$$C = C_1 + C_2$$

Wherein: C_1 : Value of current surplus/non-operating assets (liabilities) as at the reference date;

C_2 : Value of non-current surplus/non-operating assets (liabilities) as at the reference date.

4. Selection of main parameters when applying the income approach

(1) Expected income indicator and time point of realizing income

According to the specific situation of the appraised entity, the free cash flow of the enterprise is used as the expected income indicator of the operating assets.

Enterprise free cash flow = income – cost expense – tax + depreciation and amortization + interest expense × (1 – corporate income tax rate) – capital expenditure – increase in working capital

Among them, the expected income includes the distributable but undistributed profits from the realized profits of the appraised entity on the Valuation Reference Date and the previous years, the costs and expenses for managing the equity during the period when the owner of the valuation subject holds the equity are not deducted, and the taxes and related expenses that may need to be paid inside and outside the People's Republic of China when obtaining such expected income.

The time point for realizing the expected income is determined by the average realization of the expected income in the operating year, and is set in each calendar year.

(2) Income period of expected income

According to the Agreement on Franchise Rights for the Wastewater Treatment TOT Project in Mingguang City, Anhui Province signed between the shareholders of the appraised entity and the People's Government of Mingguang City, Anhui Province, the franchise period is 30 years, from 1 July 2008 to 30 June 2037. Therefore, the prediction period for this valuation is from 31 December 2021 to 30 June 2037.

(3) Liquidation value at the end of expected income

According to the agreement on franchise rights, after the business term of the appraised entity expires, the whole project assets shall be transferred to the government or its designated institution free of charge. Therefore, the liquidation of assets at the end of the period is zero, so only the working capital at the end of the period is considered in this valuation for the liquidation value at the end of the expected income.

(4) Discount rate

As the income approach adopts the enterprise free cash flow discount model, the discount rate r is calculated and determined by the weighted average cost of capital (WACC) model according to the principle of unifying the expected income amount and the discount rate. Then:

$$r = r_d \times w_d + r_e \times w_e \quad (1)$$

W_d : Debt ratio of the valuation subject;

$$w_d = \frac{D}{(E + D)} \quad (2)$$

W_e : Equity ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)} \quad (3)$$

r_d : After tax debt cost of the valuation subject;

r_e : Cost of equity capital. In this valuation, the cost of equity capital (r_e) is determined by the capital asset pricing model (CAPM);

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \quad (4)$$

Wherein: r_f : Risk-free rate of return;

r_m : Expected market rate of return;

ε : Characteristic risk adjustment factor of the valuation subject;

β_e : Expected market risk factor of the equity capital of the valuation subject;

$$\beta_e = \beta_u \times \left(1 + (1 - t) \times \frac{D}{E} \right) \quad (5)$$

β_u : Unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_i}{1 + (1 - t) \frac{D_i}{E_i}} \quad (6)$$

β_i : Expected market average risk factor of stocks of comparable companies;

$$\beta_t = 34\%K + 66\%\beta_x \quad (7)$$

Wherein: K: The average risk value of the stock market in a certain period, for which it normally assumes that K=1;

β_x : Historical market average risk factor of stocks of comparable companies;

D_i, E_i : Interest-bearing debts and equity capital of comparable companies, respectively.

5. *Determination of surplus asset value*

Surplus assets refer to the surplus assets that are not directly related to the income of the appraised entity and exceed the business needs of the appraised entity. After analysis, the appraised entity has no obvious surplus assets.

6. *Determination of value of non-operating assets*

Non-operating assets refer to the assets that have no direct relationship with the income of the appraised entity, do not generate benefits and deduct non-operating liabilities. According to the analysis, the non-operating assets of the appraised entity mainly include the current borrowings of related parties and interest receivable from related parties; non-operating liabilities are mainly loans and interest payable by related party. Non-operating assets and liabilities are mainly evaluated by cost approach.

(IV) Introduction to Valuation Using Asset-based Approach

The asset-based approach is adopted for enterprise value valuation, and the value of each asset shall be obtained by selecting appropriate specific valuation methods according to its specific conditions. The valuation methods of various assets and liabilities are as follows:

1. *Monetary assets*

Monetary assets include bank deposits, etc. The currencies involve RMB and USD. After checking and verifying, the valuers take the amount of currency legally held by the enterprise on the reference date as the basis, and deduct the amount of possible recovery costs as the appraised value.

2. *Receivables*

After checking and verifying the valuation of accounts receivable and other receivables, the valuers, on the basis of checking and verifying the accounts receivable, with the help of historical data and current investigation, specifically analyzed the amount, time and reason of arrears, recovery of funds, funds, credit, operation and management status of debtors, and estimated the risk loss of the valuation of receivables using the method of individual identification. If there are sufficient reasons to believe that all the current accounts of related enterprises can be recovered, the risk loss is 0; If there is conclusive evidence that the amount cannot be recovered or the account age is too long, the risk loss assessed is 100%; For those who are likely to fail to recover part of the funds and it is difficult to determine the amount of uncollectible accounts, the assessment risk loss shall be estimated according to the aging analysis by reference to the method of enterprise accounting for calculating the provision for bad debt.

According to the above criteria, the assessment risk loss is determined, and the appraised value is determined by subtracting the assessed risk loss from the total value of receivable after audit adjustment. The provision for bad debt is assessed as zero according to the relevant provisions of the assessment.

3. *Prepayments*

Based on the verification of the prepayments, the valuers, with the help of historical data and current investigation, specifically analyzed the amount, time and reason of arrears, recovery of funds, funds, credit, operation and management status of the debtor, and did not find that the supplier had broken down, withdrawn or failed to provide goods on time according to the contract. The book value after audit adjustment was taken as the appraised value.

4. *Inventories*

The inventories of the appraised entity are mainly raw materials. According to the estimated purchase price of inventories of the same use and quality in the market on the reference date, and considering the invalidity, deterioration, damage, scrap, uselessness, physical wear and tear of such inventories, the appraised value is determined by deducting the corresponding depreciation amount.

5. *Other current assets*

Other current assets include audit adjusted inter-period insurance premiums and corporate income taxes. The valuers verified the book records and documents related to other current assets, and took the book value after audit adjustment as the appraised value.

6. *Non-current assets*

Non-current assets refer to the asset group consisting of the franchise rights owned by the appraised entity, mainly including fixed assets, intangible assets, long-term deferred expenses and other non-current assets. The franchise right is a 30-year franchise granted by Mingguang Municipal People's Government of Anhui Province to the appraised entity to implement the Mingguang Wastewater Treatment TOT Project from 1 July 2008 to 30 June 2037, including Phase I, Phase I upgrading and reconstruction and Phase II expansion projects. This valuation adopts the discounted cash flow method to evaluate the asset group formed by the franchise. The specific formula is as follows:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} - Z$$

Wherein: P: Value of franchise asset group

R_i : Estimated cash flow of franchise asset group in the i th year within the income period

r: Discount rate

n: Duration of estimated future cash flow of franchise asset group

Z: Opening working capital

7. *Payables*

Payable include accounts payable and other payables. The valuers checked the account books and documents related to accounts payable, selected large or abnormal amounts to spot check their original vouchers, and conducted business and contract analysis and necessary correspondence. On this basis, the authenticity of accounts payable is determined, and the book value after audit adjustment is taken as the appraised value.

8. *Payroll payable*

The valuers obtained relevant vouchers and account books, verified relevant accounting records, and took the book value after audit adjustment as the appraised value.

9. *Taxes payable*

Taxes payable include value-added tax, corporate income tax, land use tax, property tax, urban construction and maintenance tax, stamp tax, education surcharge, local education fee, and local water conservancy construction fund. The valuers checked the correctness of the relevant data and the authenticity of the remittance by understanding the contents of the taxable items of the appraised entity, and took the book value after audit adjustment as the appraised value.

VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

The main procedures of asset valuation include identifying the basic business matters, entering into business entrustment contracts, preparing asset valuation plans, conducting on-site investigation of valuation, collecting and sorting out valuation data, forming conclusions by valuating and estimating, and preparing and issuing valuation reports.

(I) Preparation Stage for Valuation

1. Identify with the entrusting party the valuation purpose, valuation subject and scope, value type, Valuation Reference Date and other basic business matters.
2. Conduct a comprehensive analysis and evaluation of their professional competence, independence and operational risks.
3. Enter into an Asset Valuation Engagement Contract with the entrusting party according to the laws.
4. Prepare an asset valuation plan based on the specific circumstances of the asset valuation engagement.

(II) Asset Verification and Data Validation Stage

1. Conduct on-site investigation on the valuation subject, understand the current situation of the valuation subject, and pay attention to the legal ownership of the valuation subject. Field investigation methods usually include inquiry, interview, check, supervision, investigation, etc. According to the principle of importance, field investigation shall be carried out by item or sampling.

2. According to the specific situation of asset valuation engagement, collect the information needed for asset valuation engagement. Including: information regarding the valuation subject and valuation scope provided by the entrusting party or other concerned parties, other information obtained from different channels, such as government departments, various professional institutions and market, and other necessary information regarding the valuation subject and valuation scope. The entrusting party or other concerned parties are required to confirm the asset valuation schedule and other important information provided by them by means including signature, seal and other means permitted by laws.
3. Verify and validate the data used in asset valuation activities. Verification methods usually include observation, inquiry, written review, field investigation, enquiry, confirmation, review, etc.
4. According to the specific situation of asset valuation engagement, analyze, summarize and sort out the collected data for valuation in order to form the basis for valuation and estimation and preparation of asset valuation report.

(III) Selection of Valuation Methodology and Results Calculation Stage

1. According to the valuation purpose, valuation subject, value type, data collection, etc., analyze the applicability of the three basic approaches of asset valuation, namely market approach, income approach and cost approach, and select the valuation methodology.
2. According to the valuation methodology adopted, the valuation assumptions are reasonably used, and the corresponding formulas and parameters are selected for analysis, calculation and judgment to form the calculation results.

(IV) Forming Valuation Conclusion and Review, Communication, Issuing Report Stage

1. Conduct a comprehensive analysis on the resulting calculation results to form a reasonable valuation conclusion.
2. After forming the valuation conclusion by valuation and estimation, prepare the preliminary asset valuation report.
3. According to laws, administrative regulations, asset valuation standards and internal quality control system of asset valuation agencies, conduct an internally review on the preliminary asset valuation report.
4. Under the premise of not affecting the independent judgment of the valuation conclusion, communicate with the entrusting party or other concerned parties who agree with the entrusting party on the relevant content of the asset valuation report, analyze the communication independently, and decide whether to adjust the asset valuation report.
5. Issue and submit formal asset valuation report.

IX. VALUATION ASSUMPTIONS

(I) Basic Assumptions

1. Transaction assumptions. It is assumed that the valuation subject is in the process of the transaction, the valuers conduct the valuation according to the simulated market conditions such as the transaction conditions of the valuation subject, and the valuation result is the estimation of which the transaction price is most likely to be reached by the valuation subject.
2. Open market assumptions. It is assumed that the assets involved in the valuation subject are traded in the open market. In such market, buyers and sellers have equal status, and both have the opportunity and time to obtain sufficient market information. The transaction behavior of buyers and sellers is carried out under voluntary, rational and non-mandatory conditions.
3. It is assumed that after the economic activities for the valuation purpose has been achieved, the assets involved in the valuation subject will continue to be used on the same site for the purposes and in the manner in which they were used as at the Valuation Reference Date.

(II) Assumptions on the Valuation Subject

1. In addition to the extent known to the valuer, it is assumed that the purchase, acquisition, improvement, construction and development of the assets involved in the valuation subject are in accordance with the relevant laws and regulations of the State.
2. In addition to the extent known to the valuer, it is assumed that none of the assets involved in the valuation subject carry rights defects, liabilities and limitations that affect their value.
3. In addition to the extent known to the valuer, it is assumed that there are no significant defects affecting the continued use of the property, such as land, house buildings involved in the valuation subject, that there are no hazardous substances in the relevant assets that adversely affect their value, and that the location of the assets is free of hazardous substances and other hazardous environmental conditions that adversely affect the value of such assets.
4. The valuers have conducted surveys on tangible assets such as equipment involved in the valuation subject from the external of their visible entity and have conducted due diligence to understand their internal existing problems, but due to technical constraints, no specific technical tests have been organized on the technical data, technical status, structure, attachments and other aspects of the assets concerned. In addition to the extent known to the valuer, it is assumed that the machinery and equipment, vehicles, electronic equipment and other equipment involved in the valuation subject have no material technical failures that affect their continuous use, and that their key components and materials have no potential quality defects.
5. Unless otherwise indicated in this report, it is assumed that the valuation subject will not be affected by factors such as pre-existing or future collateral, security matters and particular transaction method on its value.
6. It is assumed that the valuation subject will not encounter other force majeure factors or unforeseen factors that have a significant adverse impact on its value.

7. It is assumed that each of the assets in this valuation are based on the actual stock as at the Valuation Reference Date, and that the current market price of the assets is based on the domestic effective price as at the Valuation Reference Date.

(III) Assumptions about Enterprise Operation and Forecast

1. It is assumed that there is no significant change in the international financial and global economic environment, the national macroeconomic situation, and the political, economic and social environment of the countries and regions where the counterparties are located.
2. It is assumed that the socio-economic environment and the interest rate, exchange rate, tax base and tax rate, policy collection fees and so on are not significantly changed.
3. It is assumed that the State's existing laws and regulations and administrative policies, industrial policies, financial policies, tax policies and other policy environment is relatively stable. Unless otherwise stated, it is assumed that the appraised entity operates in full compliance with relevant laws and regulations.
4. It is assumed that the industry in which the appraised entity is operated will develop under the current known development direction and trend after the Valuation Reference Date.
5. It is assumed that the appraised entity will continue to operate in the current industry situation and market competition environment after the economic activities for the valuation purpose is achieved.
6. The valuation is only based on the existing operating capacity of the appraised entity on the Valuation Reference Date. It does not consider the expansion of operating capacity that may be caused by management, business strategy and additional investment in the future, nor the impact of subsequent changes in production and operation that may occur; it is assumed that the appraised entity will maintain the total investment and financial leverage level as at the Valuation Reference Date basically unchanged.
7. It is assumed that the appraised entity continues to operate at the management level prevailing at the Valuation Reference Date, that the management of the appraised entity is responsible and diligent, and that the management is relatively stable and capable of performing its functions, regardless of the impact on future expected returns of significant adjustments to the operator or significant changes in management in the future.
8. It is assumed that the assets of the appraised entity will be expressed differently at any point of time during the going-concern period.
9. It is assumed that the cash inflow of the appraised entity after the Valuation Reference Date is the average inflow, and the cash outflow is the average outflow.
10. It is assumed that the accounting policies to be adopted by the appraised entity in the future and those adopted in the preparation of this report are substantially consistent in material aspects.
11. It is assumed that the management team of the appraised entity is acting with due diligence and operates based on franchise-related matters.

12. It is assumed that the parties to the franchise and relevant supplementary agreements can comply with the terms of the agreement, the agreement can be proceeded smoothly and there will be no abnormal termination.
13. It is assumed that the water quality of the appraised entity after wastewater treatment in the future forecast year will meet the first level standard A of the *Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant* (GB18918-2002).
14. It is assumed that the appraised entity operates within the term of the franchise agreement and, upon expiration, the assets of the project as a whole will be transferred to the Government at no consideration.

(IV) Other Assumptions

1. According to the *Law of the People's Republic of China on Asset Appraisal* (《中華人民共和國資產評估法》), “the entrusting party shall be responsible for the authenticity, completeness and legality of the ownership certificate, financial accounting information and other materials provided by them”, it is assumed that the entrusting party has acted in accordance with the laws.
2. It is assumed that the valuation scope is consistent with the valuation declaration form provided by the entrusting party and the appraised entity, not considering the impact of contingent assets and contingent liabilities that may exist beyond the assessment declaration form provided by the entrusting party and the appraised entity on the valuation conclusion.
3. It is assumed that the methods of acquisition and utilization of the production and business premises required by the valuation subject remains consistent with and have no changes on the Valuation Reference Date.

When the above valuation assumptions and valuation principles followed in the valuation change, the valuation conclusion will be affected and changed, and the valuation report will be invalid.

X. VALUATION CONCLUSION

(I) Valuation Results of Different Valuation Methodology

1. Valuation results using the income approach

Based on the judgment of the management of the appraised entity on the future development trend and business planning, the discounted cash flow method (DCF) is used for valuation. The valuation results are as follows:

The book value was Renminbi sixty-two million one hundred and thirteen thousand two hundred (RMB62,113,200); the appraised value amounted to Renminbi ninety-six million five hundred and twenty-three thousand (RMB96,523,000); representing an increase of Renminbi thirty-four million four hundred and nine thousand eight hundred (RMB34,409,800) with an appreciation rate of 55.40%.

2. Valuation results using the asset-based approach

Total assets: the book value was Renminbi ninety-one million six hundred and fifty-six thousand seven hundred (RMB91,656,700), the appraised value amounted to Renminbi one hundred twenty-six million thirty-seven thousand three hundred (RMB126,037,300), representing an increase of Renminbi thirty-four million three hundred and eighty thousand six hundred (RMB34,380,600) with an appreciation rate of 37.51%;

Total liabilities: the book value was Renminbi twenty-nine million five hundred and forty-three thousand five hundred (RMB29,543,500), the appraised value amounted to Renminbi twenty-nine million five hundred and forty-three thousand five hundred (RMB29,543,500), representing no increase or decrease of the appraised value;

Shareholders' equity: the book value was Renminbi sixty-two million one hundred and thirteen thousand two hundred (RMB62,113,200), the appraised value amounted to Renminbi ninety-six million four hundred and ninety-three thousand eight hundred (RMB96,493,800), representing an increase of Renminbi thirty-four million three hundred and eighty thousand six hundred (RMB34,380,600) with an appreciation rate of 55.35%.

Item		Book value A	Appraised value B	Currency Unit: RMB0'000	
				Increase/ decrease in value C=B-A	Appreciation rate % D=C/A×100
Current assets	1	3,876.40	3,876.40	0.00	0.00
Non-current assets	2	5,289.27	8,727.33	3,438.06	65.00
Of which: Long-term equity investments	3	0.00	0.00	0.00	
Investment properties	4	0.00	0.00	0.00	
Fixed assets	5	19.63	0.00	-19.63	-100.00
Construction in progress	6	0.00	0.00	0.00	
Oil and gas assets	7	0.00	0.00	0.00	
Intangible assets	8	5,227.74	8,727.33	3,499.59	66.94
Of which: Land use right	9	0.00	0.00	0.00	
Other non-current assets	10	41.90	0.00	-41.90	-100.00
Total assets	11	9,165.67	12,603.73	3,438.06	37.51
Current liabilities	12	2,954.35	2,954.35	0.00	0.00
Non-current liabilities	13	0.00	0.00	0.00	
Total liabilities	14	2,954.35	2,954.35	0.00	0.00
Net assets	15	6,211.32	9,649.38	3,438.06	55.35

(II) Analysis of Results under Different Valuation Methodology

Conducting valuation by using two valuation approaches, namely income approach and asset-based approach, the difference of the results amounted to RMB29,200, the difference rate is 0.03%. The valuation results of the two valuation approaches have little difference and can be verified each other.

(III) Determination of Valuation Conclusion

In view of the fact that the purpose of this valuation is to transfer equity, based on the relevant agreements currently signed by the appraised entity and the historical operating conditions, the income approach is used for valuation, and the relevant factors are more objective. Therefore, this valuation takes valuation results using the income approach as the valuation conclusion, that is, the valuation conclusion of the market value of entire shareholders' equity interests of Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* as at the Valuation Reference Date, being 31 December 2021, is Renminbi ninety-six million five hundred and twenty-three thousand (RMB96,523,000).

(IV) Validity Period of Valuation Conclusion

According to the asset valuation standards and relevant regulatory provisions, on the basis that there is no significant change in the valuation assumptions and restrictions set out in this report, generally, this valuation report can be used when the difference between the Valuation Reference Date and the date of realization of economic activities is not more than one year, that is, from 31 December 2021 to 30 December 2022.

(V) Explanation of the Valuation Conclusion

1. This valuation conclusion does not consider the impact of the expenditures such as various transaction taxes and fees that may have to be paid by the valuation subject and on the concerned assets in connection with the arrears of tax and transactions on its value, it also does not make any tax adjustment provisions for the increase of the appraised value of the assets.
2. The legal responsibility of the asset valuation agency and its asset valuation professionals is to provide professional advice on the value of assets for the valuation purposes described in this report. The asset valuation agency and its asset valuation professionals make no judgement as to the economic activities corresponding to the valuation purposes.
3. The valuation engagement relies to a large extent on the information provided by the entrusting party, the appraised entity and other related parties in regard of the valuation subject. Therefore, the valuation engagement is based on the premise that the entrusting party and the appraised entity provide true, complete and legitimate ownership certificates, financial accounting information, technical parameters and other information in accordance with the laws. The authenticity, completeness and legitimacy of the relevant information will have an impact on the valuation conclusion. The valuers have performed due diligence and conducted on-site investigations on the valuation subject, collected ownership certificates, financial accounting information and other information, and have verified, analyzed and collated them, and used them as the basis for the preparation of the valuation report, but did not rule out that unknown matters may cause changes in the valuation conclusion. The asset valuation agency and its asset valuation professionals cannot bear any legal responsibility related to the property rights of the assets involved in the valuation subject.
4. Within the validity period after the Valuation Reference Date, if the number of assets and the pricing standard change, the following principles can be followed:
 - (1) when the number of assets changes, the amount of assets should be adjusted according to the original valuation methodology;

- (2) when the asset price standards change, and have a significant impact on the asset valuation conclusion, the entrusting party should promptly engage a qualified asset valuation agency to re-determine the appraised value;
- (3) for the changes of the number of assets and price standards after the Valuation Reference Date, the entrusting party should fully consider the actual price of the asset and make corresponding adjustments.

XI. EXPLANATIONS TO SPECIAL MATTERS

The following matters may affect the use of the valuation conclusion. Users of the valuation report should pay special attention to impact of the following matters on the valuation conclusion:

(I) In this asset valuation report, for all tables or textual expressions denominated in RMB ten thousand, any difference between the total amount and the sum of the individual sub-values is due to rounding off.

(II) The major information, such as ownership certificates, is incomplete or exist deficiencies

During the valuation, the valuers found that one of the assets included in the valuation subject has the name of the obligee stated in the land use right certificate inconsistent with that of the actual user. The land use right was obtained by Anhui Mingguang Limin Water Treatment Co., Ltd.* (安徽省明光市利民水處理有限責任公司) in 2007 through allocation, and the land use right certificate has been issued with the certificate number of “Mingguoyong (2007) No. 0133”. The land has an area of 43,699.58 square meters and is for industrial use. The land is located in Xiaowei, Huyuan Village, Zhaoxin Town, Mingguang City. The buildings on the land mainly include comprehensive office building, machine maintenance and logistics room, power distribution room and other buildings, as well as wastewater treatment facilities such as oxidation ditch, secondary sedimentation tank and dehydration machine room.

The land use right certificate states that the obligee is Anhui Mingguang Limin Water Treatment Co., Ltd.*, and the actual user is Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.*. At the same time, as of the Valuation Reference Date, the completed buildings included in the valuation scope have not yet obtained relevant property right certificates.

According to the introduction of the appraised entity, failure to handle the ownership change of the land use right and failure to handle the property right certificate of the buildings are mainly due to historical reasons. According to the franchise transfer agreement, “after payment of the franchise fee by the appraised entity, it can use all the assets of the project during the franchise period.” To sum up, the land use right, the building use right and other rights and interests are actually held by the appraised entity, and the property has been used normally without any property right dispute as of the Valuation Reference Date. Due to the less handling fees required for the above registration of ownership change, the impact of the fees for registration of ownership change on the asset value has not been considered in the valuation.

(III) Matters of Guarantees, Leases and its Contingent Liabilities (Contingent Assets)

The valuers were not informed and have not discovered matters such as pledge of assets and external guarantees of the appraised entity during the on-site due diligence, and the impact of any possible pledge and guarantee liabilities of the appraised entity on the valuation conclusion has not been considered in valuation.

(IV) Uncertainties such as Outstanding Matters, Legal Disputes and Restricted Valuation Procedures

The valuers were not informed and have not discovered matters such as default liabilities, pending litigation or legal disputes of the appraised entity during the on-site due diligence, and the impact of any possible default and litigation liabilities of the appraised entity on the valuation conclusion has not been considered in valuation.

(V) Significant Work Progress by the Engagement of Experts

The assets and liabilities included in the valuation scope have been audited by Da Hua Certified Public Accountants (Special General Partnership), and the audit report number is “Da Hua Shen Zi [2022] No. 006642”. The valuation was carried out on the basis of the audited statements of the appraised entity.

(VI) Impact of Significant Subsequent Events and Economic Activities

With the outbreak of “novel coronavirus pneumonia” in early 2020, the global economic environment has been affected as the spread of “novel coronavirus pneumonia” has accelerated globally and global trade frictions have continued to expand. As of the date of the valuation report, the impact of “novel coronavirus pneumonia” has not yet been completely eliminated, and as the valuers are unable to estimate its subsequent development and corresponding national policies, the impact of changes in the global economic environment on the subsequent operations of the appraised entity has not been considered in this valuation.

Except for the above matters, the valuers have not been informed of and have not identified any significant subsequent events that have an impact on the valuation conclusion as of the date of issuance of this report.

The existence of the above special matters is brought to the attention of the users of this report.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

1. The scope of use of this report is limited to the valuation purpose and usages set out in the report.
2. If the entrusting party or other users of the asset valuation report fails to use the report in accordance with the provisions of laws and administrative regulations and the scope of use specified in this report, the asset valuation agency and its asset valuation professionals shall not bear the responsibility. The prerequisite for the validation of this valuation report is that the economic activities conform to the relevant provisions of national laws and regulations, and have been approved by the relevant departments.
3. Except for the entrusting party or other users of the asset valuation report agreed in the Asset Valuation Engagement Contract and the users of the asset valuation report stipulated by laws and administrative regulations, no other institution or individual may be the user of this report. For persons other than the users of the asset valuation report who used this report for purposes beyond the scope of use and are presented with or otherwise have access to this report, the asset valuation agency and its asset valuation professionals do not assume any obligation or responsibility, do not provide further advice as a result of this report, do not provide testimony, attend court or other legal proceedings during the hearing, and reserve the right to pursue the resulting losses to the person other than the users of the asset valuation report.

4. The users of the asset valuation report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equal to the realizable price of the valuation subject, and the valuation conclusion should not be regarded as the guarantee of the realizable price of the valuation subject.
5. The analysis and conclusion of this report are based on the valuation principles, the valuation basis, the valuation assumptions and limitations, the valuation methodology and the valuation procedures described in the report, which maintains valid only under the valuation assumptions and limitations described in this report.
6. After the date of the issuance of this report and during the validity period of this valuation report, in the event of significant subsequent events affecting the value of the valuation subject, including changes in national, local and industry laws and regulations, economic policies and significant changes in the market value of assets, etc., the valuation conclusion of this report cannot be directly used.
7. This report contains certain documents for inspection and valuation schedules. All documents for inspection and valuation schedules also form an important part of this report, but they should be used together with the main text of this report to be valid.
8. This report is based on copies of relevant asset ownership documents provided by the entrusting party or the appraised entity. The valuers have paid reasonable attention to the legal ownership of the valuation subject and conducted necessary checks on the relevant information, but do not guarantee that they have examined and reviewed the originals of all documents and materials item by item; except as specifically stated in the report, the impact of defects in the ownership of the valuation subject on their value has not been considered.
9. The statements in this report regarding the legal ownership of the valuation subject do not represent a guarantee or an assurance by the valuers of the legal ownership of the valuation subject. This report does not constitute a document certifying the ownership of the assets, nor does it assume any legal responsibility for the ownership status of the assets.
10. In accordance with laws and regulations relating to asset valuation, asset valuation report involving statutory valuation engagement shall be used by the entrusting party after fulfilling the supervision and management procedures for asset valuation in accordance with the requirements of laws and regulations.
11. The right of interpretation of the contents of this valuation report belongs to this valuation agency and no other unit or department has the right to interpret it, except for the explicit special provisions of national laws and regulations.

XIII. DATE OF ASSET VALUATION REPORT

The date of this asset valuation report is 31 October 2022.

* *For identification purposes only*

(There is no text on this page)

Allied Appraisal Co., Ltd.

Legal representative: Hu Dongquan

Asset valuer: Sun Yongfa

Asset valuer: Luo Fenghui

31 October 2022

**Extracted Explanatory Notes to the Asset Valuation Report of
HYFLUX NEWSRING WASTE WATER TREATMENT (MINGGUANG) CO., LTD.***

I. ASSUMPTIONS FOR INCOME FORECAST

1. It is assumed that there are no major changes in the international financial and global economic environment, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located.
2. It is assumed that there will be no major changes in the social and economic environment and the implemented interest rates, exchange rates, tax bases and tax rates, and policy-related charges.
3. It is assumed that the country's current relevant laws and regulations, administrative policies, industrial policies, financial policies, tax policies and other policy environments are relatively stable. Unless otherwise stated, it is assumed that the assessed entity operates in full compliance with relevant laws and regulations.
4. It is assumed that the industry in which the valuation subject operates will maintain the currently known development direction and trend after the base date.
5. It is assumed that the valuation subject will continue to operate under the current industry conditions and market competition environment after the appraisal target economic behavior is realized.
6. The valuation is only based on the existing operating capacity of the appraised entity on the valuation reference date. It does not take into account the expansion of operating capabilities that may be caused by management, business strategies, and additional investment in the future, nor does it consider the impact of subsequent changes in production and operation that may occur; it is assumed that the assessed unit will maintain the total investment on the assessment base date, The level of financial leverage remained basically unchanged.
7. It is assumed that the valuation subject continues to operate at the current management level on the assessment base date, the management of the assessed entity is responsible and diligent, and the management is relatively stable and capable of performing its duties, regardless of major adjustments to the operator in the future nor the impact of major changes in management level on future expected earnings.
8. It is assumed that at any point in the continuous operation period of the valuation subject, the performance of its assets is different.
9. It is assumed that the cash inflow of the valuation subject after the valuation reference date is the average inflow, and the cash outflow is the average outflow.
10. It is assumed that the accounting policies adopted by the valuation subject in the future are basically consistent with the accounting policies adopted at the time of preparation of the report.
11. It is assumed that the appraised entity fully complies with the relevant laws and regulations in the countries and regions in which it carries out legal operations.
12. It is assumed that the management team of the valuation subject is performing its duties and operating in accordance with franchise-related matters.

13. It is assumed that the parties to the franchise and related supplementary agreements can abide by the terms of the agreement, the agreement can be carried out smoothly, and there will be no abnormal termination midway.
14. It is assumed that in the future forecast year, the water quality after the sewage treatment of the valuation subject meets the first-class standard A of the “Pollutant Discharge Standards for Urban Wastewater Treatment Plants” (GB18918-2002).
15. It is assumed that the assessed unit operates according to the term of the franchise agreement, and transfers the entire project assets to the government free of charge after expiration.

II. EXPLANATION OF INCOME FORECAST

The main business of the appraised entity includes sewage treatment. The forecasted income mainly is, based on the historical business data of the appraised entity, the designed capability of the sewage treatment plant and the actual sewage treatment capacity, a forecast of the financial data according to the national macro policy, the macroeconomic situation of the region, the development conditions and market environment of the industry, the development plan and business plan of the enterprise, the analysis of advantages, disadvantages, opportunities and risks of the enterprise in the market competition environment and combining the enterprise’s future annual financial budget. The major forecasted income is as follows:

(I) Operating Income

The income from main business of the appraised entity includes income from sewage treatment. Historical business operation figures are as follows:

No.	Type of income	Item	Unit	2019	2020	2021
1-1	Income from sewage treatment	Designed daily treatment capacity	0’000 ton/day	5.00	5.00	5.00
1-2	Income from sewage treatment	Basic water volume	0’000 ton/day	5.00	5.00	5.00
1-3	Income from sewage treatment	Growth rate of basic water volume	%	—	—	—
1-4	Income from sewage treatment	Actual daily sewage treatment capacity	0’000 ton/day	4.87	4.84	4.88
1-5	Income from sewage treatment	Actual operational days	Day	365.00	365.00	365.00
1-6	Income from sewage treatment	Actual annual sewage treatment capacity	0’000 ton	1,776.08	1,768.19	1,781.31
1-7	Income from sewage treatment	Growth rate of annual sewage treatment capacity	%		-0.00	0.01
1-8	Income from sewage treatment	Average unit price of sewage treatment	RMB/ton	1.0695	1.133	1.1191
1-9	Income from sewage treatment	Growth rate of unit price of sewage treatment	%			
1-10	Income from sewage treatment	Income from sewage treatment (RMB0’000)	RMB0’000	1,899.49	2,003.41	1,993.50
2-1	Income from other business	Interest income — Shandong Environmental Protection Industry Investment Development Co., Ltd.*	RMB0’000			

No.	Type of income	Item	Unit	2019	2020	2021
2-2	Income from other business	Interest income — Galaxy Operation and Management (Shanghai) Co., Ltd.*	RMB0'000			
2-3	Income from other business	Interest income — Mingguang Yunshui Water Industry Co. Ltd.*	RMB0'000			
2-4	Income from other business	Income from other business	RMB0'000		—	—
	Total	Total operating income	RMB0'000	1,899.49	2,003.41	1,993.50

The calculation of the forecasted income from sewage treatment is as follows: the income from sewage treatment = annual sewage treatment capacity × average unit price of sewage treatment; of which the forecasted sewage treatment capacity is based on the historical data of the enterprise and the designed capacity of the sewage treatment plant. The average sewage treatment capacity of the appraised entity in 2020 and 2021 is 48,400 ton/day and 48,800 ton/day, respectively. In this valuation, according to the historical business operation of the enterprise and the future development of the region in Yeji, the forecast is based on 49,500 ton/day in 2022 and full capacity of 50,000 ton/day during the operating period in 2023 and beyond.

For the unit price of sewage treatment services, the initial service fee for sewage treatment of the appraised entity was RMB0.88/ton. The price was adjusted in May 2018, and the unit price of services was RMB1.2170/ton (tax inclusive) after the price adjustment. Currently, the appraised entity continues to implement such unit price. In this evaluation, according to the current operation situation and historical gross profit of the appraised entity, the forecast was based on the unit price of services of RMB1.2170/ton (tax inclusive). The specific measurement is as follows:

No.	Type of income	Item	Unit	2022	2023	2024	2025	2026	2027	2028	2029
1-1	Income from sewage treatment	Designed daily treatment capacity	0'000 ton/day	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-2	Income from sewage treatment	Basic water volume	0'000 ton/day	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-3	Income from sewage treatment	Growth rate of basic water volume	%	—	—	—	—	—	—	—	—
1-4	Income from sewage treatment	Actual daily sewage treatment capacity	0'000 ton/day	4.95	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-5	Income from sewage treatment	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00	365.00
1-6	Income from sewage treatment	Actual annual sewage treatment capacity	0'000 ton	1,806.75	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00
1-7	Income from sewage treatment	Growth rate of annual sewage treatment capacity	%	0.01	0.01	—	—	—	—	—	—
1-8	Income from sewage treatment	Average unit price of sewage treatment	RMB/ton	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481
1-9	Income from sewage treatment	Growth rate of unit price of sewage treatment	%								
1-10	Income from sewage treatment	Income from sewage treatment (RMB0'000)	RMB0'000	2,074.33	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28

No.	Type of income	Item	Unit	2022	2023	2024	2025	2026	2027	2028	2029
2-1	Income from other business	Interest income — Shandong Environmental Protection Industry Investment Development Co., Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-2	Income from other business	Interest income — Galaxy Operation and Management (Shanghai) Co., Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-3	Income from other business	Interest income — Mingguang Yunshui Water Industry Co. Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-4	Income from other business	Income from other business	RMB0'000	—	—	—	—	—	—	—	—
	Total	Total operating income	RMB0'000	2,074.33	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28

No.	Type of income	Item	Unit	2030	2031	2032	2033	2034	2035	2036	2037
1-1	Income from sewage treatment	Designed daily treatment capacity	0'000 ton/day	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-2	Income from sewage treatment	Basic water volume	0'000 ton/day	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-3	Income from sewage treatment	Growth rate of basic water volume	%	—	—	—	—	—	—	—	—
1-4	Income from sewage treatment	Actual daily sewage treatment capacity	0'000 ton/day	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1-5	Income from sewage treatment	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00	183.00
1-6	Income from sewage treatment	Actual annual sewage treatment capacity	0'000 ton	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00	1,825.00	915.00
1-7	Income from sewage treatment	Growth rate of annual sewage treatment capacity	%	—	—	—	—	—	—	—	-0.50
1-8	Income from sewage treatment	Average unit price of sewage treatment	RMB/ton	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481	1.1481
1-9	Income from sewage treatment	Growth rate of unit price of sewage treatment	%	—	—	—	—	—	—	—	—
1-10	Income from sewage treatment	Income from sewage treatment (RMB0'000)	RMB0'000	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	1,050.51
2-1	Income from other business	Interest income — Shandong Environmental Protection Industry Investment Development Co., Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-2	Income from other business	Interest income — Galaxy Operation and Management (Shanghai) Co., Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-3	Income from other business	Interest income — Mingguang Yunshui Water Industry Co. Ltd.*	RMB0'000	—	—	—	—	—	—	—	—
2-4	Income from other business	Income from other business	RMB0'000	—	—	—	—	—	—	—	—
	Total	Total operating income	RMB0'000	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	1,050.51

(2) Operating Costs

The operating costs of the appraised entity mainly include direct materials, fuel and power, direct labor and manufacturing costs. Details of the costs of the appraised entity for historical years are as follows:

Item	Unit	Historical year		
		2019	2020	2021
Direct materials	RMB0'000	231.08	249.33	266.25
Fuel and power	RMB0'000	342.30	241.21	294.25
Direct labor	RMB0'000	107.70	97.97	124.51
Manufacturing costs	RMB0'000	490.06	531.76	511.72
Sub-total		1,171.13	1,120.26	1,196.72

Among them, the direct materials mainly include chemical materials needed for the sewage treatment process. The fuel and power mainly include the electricity generated during the operation of the sewage treatment plant. Direct labor includes the salary, welfare expenses and social insurance of the production personnel. The manufacturing costs mainly include the amortization of the franchise rights in the factory area, repair expenses, and equipment renewal and transformation costs, details of which are as follows:

		<i>Currency Unit: RMB0'000</i>		
Subject of costs	Item	2019	2020	2021
Direct materials	Polymeric aluminum-iron	94.48	60.51	77.17
Direct materials	Carbon resources	109.95	158.79	159.19
Direct materials	Cationic PAM	13.08	18.56	15.95
Direct materials	Anionic PAM	12.65	10.81	13.36
Direct materials	Others	0.92	0.66	0.58
Fuel and power	Electricity	342.30	241.21	294.25
Direct labor	Salary	75.29	74.05	87.33
Direct labor	Welfare expenses	10.23	12.28	10.55
Direct labor	Social insurance	16.76	5.40	19.36
Direct labor	Housing provident fund	5.42	6.24	7.26
Manufacturing costs	Travel expenses	1.22	0.20	0.12
Manufacturing costs	Labor insurance premiums	0.25	1.33	2.44
Manufacturing costs	Vehicle use expenses	0.95	0.33	0.74
Manufacturing costs	Communication costs	1.01	0.56	-1.80
Manufacturing costs	Machinery material consumption	5.42	5.70	3.17
Manufacturing costs	Insurance premium	5.56	3.68	3.20
Manufacturing costs	Inspection and testing costs	4.09	6.93	2.89
Manufacturing costs	Reagent fee	0.94	0.27	1.08
Manufacturing costs	Amortization of franchise right	364.19	378.19	380.82
Manufacturing costs	Maintenance fee for online testing	—	12.08	14.43
Manufacturing costs	Equipment renewal and transformation	—	—	40.07
Manufacturing costs	Landscaping expenses	12.64	12.68	12.64
Manufacturing costs	Sewage sludge disposal costs	3.44	2.66	10.05
Manufacturing costs	Technical service fee	2.80	10.10	6.10
Manufacturing costs	Costs of loading and unloading	—	0.16	0.28
Manufacturing costs	Repair expenses	77.29	59.12	28.44
Manufacturing costs	Safe production expenses	0.43	6.30	0.67
Manufacturing costs	Others	8.69	27.04	1.35
Manufacturing costs	Depreciation expenses of Mingguang wastewater treatment plant	1.13	4.45	5.05
Total		1,171.13	1,120.26	1,196.72

In this valuation, the calculation of forecasted direct materials and power is mainly based on consumption volume × unit price. Among them, the forecasted consumption volume is mainly based on combining the annual sewage treatment capacity of the appraised entity and the water consumption per tonne of the enterprise. The forecasted unit price is mainly based on referring to the average market unit price as at the Valuation Reference Date. The forecasted direct labor is based on the number of production personnel of the enterprise combining with the average salary. Details of depreciation and amortization are set out in the forecasted costs of “Forecast of Depreciation and Amortization” as follows:

		<i>Currency Unit: RMB0'000</i>							
Subject of costs	Item	2022	2023	2024	2025	2026	2027	2028	2029
Direct materials	Polymeric aluminum-iron	63.09	64.32	64.91	65.51	66.10	66.69	67.29	67.88
Direct materials	Carbon resources	147.29	150.25	151.72	153.19	154.67	156.14	157.61	159.27
Direct materials	Cationic PAM	16.17	16.50	16.67	16.83	17.00	17.17	17.34	17.52
Direct materials	Anionic PAM	13.55	13.83	13.97	14.11	14.25	14.39	14.53	14.68
Direct materials	Others	0.59	0.60	0.61	0.62	0.63	0.64	0.65	0.66
Fuel and power	Electricity	303.90	306.97	306.97	306.97	306.97	306.97	306.97	306.97
Direct labor	Salary	84.00	85.89	87.78	89.88	91.98	94.08	96.18	98.49
Direct labor	Welfare expenses	11.76	12.02	12.29	12.58	12.88	13.17	13.47	13.79
Direct labor	Social insurance	12.60	12.88	13.17	13.48	13.80	14.11	14.43	14.77
Direct labor	Housing provident fund	6.72	6.87	7.02	7.19	7.36	7.53	7.69	7.88
Manufacturing costs	Travel expenses	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81
Manufacturing costs	Labor insurance premiums	2.46	2.48	2.50	2.53	2.56	2.59	2.62	2.65
Manufacturing costs	Vehicle use expenses	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Communication costs	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Machinery material consumption	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Manufacturing costs	Insurance premium	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
Manufacturing costs	Inspection and testing costs	4.63	4.68	4.73	4.78	4.83	4.88	4.93	4.98
Manufacturing costs	Reagent fee	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Amortization of franchise right	422.59	420.49	409.42	403.53	403.53	403.53	403.53	403.53
Manufacturing costs	Maintenance fee for online testing	15.00	15.15	15.30	15.45	15.60	15.76	15.92	16.08
Manufacturing costs	Equipment renewal and transformation	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Manufacturing costs	Landscaping expenses	12.76	12.89	13.02	13.15	13.28	13.41	13.54	13.68
Manufacturing costs	Sewage sludge disposal costs	10.15	10.25	10.35	10.45	10.55	10.66	10.77	10.88
Manufacturing costs	Technical service fee	10.00	10.10	10.20	10.30	10.40	10.50	10.61	10.72
Manufacturing costs	Costs of loading and unloading	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28
Manufacturing costs	Repair expenses	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Manufacturing costs	Safe production expenses	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Others	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Depreciation expenses of Mingguang wastewater treatment plant	3.48	3.48	2.35	0.77	14.57	28.50	28.50	28.50
Total		1,200.99	1,209.89	1,203.22	1,201.56	1,221.20	1,240.96	1,246.82	1,253.17

Subject of costs	Item	2030	2031	2032	2033	2034	2035	2036	2037
Direct materials	Polymeric aluminum-iron	68.48	69.07	69.66	70.46	71.25	72.04	72.83	36.91
Direct materials	Carbon resources	160.93	162.58	164.24	165.90	167.56	169.21	170.87	86.50
Direct materials	Cationic PAM	17.69	17.87	18.05	18.23	18.41	18.59	18.78	9.51
Direct materials	Anionic PAM	14.83	14.97	15.12	15.27	15.43	15.58	15.74	7.97
Direct materials	Others	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.37
Fuel and power	Electricity	306.97	306.97	306.97	306.97	306.97	306.97	306.97	153.90
Direct labor	Salary	100.80	103.11	105.42	107.94	110.46	112.98	115.50	59.12
Direct labor	Welfare expenses	14.11	14.44	14.76	15.11	15.46	15.82	16.17	8.28
Direct labor	Social insurance	15.12	15.47	15.81	16.19	16.57	16.95	17.33	8.87
Direct labor	Housing provident fund	8.06	8.25	8.43	8.64	8.84	9.04	9.24	4.73
Manufacturing costs	Travel expenses	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81
Manufacturing costs	Labor insurance premiums	2.68	2.71	2.74	2.77	2.80	2.83	2.86	2.89
Manufacturing costs	Vehicle use expenses	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Communication costs	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Machinery material consumption	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Manufacturing costs	Insurance premium	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
Manufacturing costs	Inspection and testing costs	5.03	5.08	5.13	5.18	5.23	5.28	5.33	5.38
Manufacturing costs	Reagent fee	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Amortization of franchise right	403.53	403.53	403.53	403.53	274.68	41.32	41.32	28.03
Manufacturing costs	Maintenance fee for online testing	16.24	16.40	16.56	16.73	16.90	17.07	17.24	17.41
Manufacturing costs	Equipment renewal and transformation	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Manufacturing costs	Landscaping expenses	13.82	13.96	14.10	14.24	14.38	14.52	14.67	14.82
Manufacturing costs	Sewage sludge disposal costs	10.99	11.10	11.21	11.32	11.43	11.54	11.66	11.78
Manufacturing costs	Technical service fee	10.83	10.94	11.05	11.16	11.27	11.38	11.49	11.60
Manufacturing costs	Costs of loading and unloading	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28
Manufacturing costs	Repair expenses	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Manufacturing costs	Safe production expenses	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Others	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Manufacturing costs	Depreciation expenses of Mingguang wastewater treatment plant	28.50	28.50	28.50	28.50	28.50	28.50	28.50	28.50
Total		1,259.52	1,265.87	1,272.21	1,279.08	1,157.09	930.58	937.47	556.81

(III) Taxes and Surcharges

The taxes and surcharges of appraised entity mainly comprise urban construction tax, education surcharge, local education surcharge, local water conservancy construction fund, property tax, land use tax, vehicle and vessel use tax, stamp tax, etc.

The urban construction tax, education surcharge and local education fee of the appraised entity shall be paid according to 7%, 3% and 2% of the current payable turnover tax, the stamp tax shall be paid according to 0.03% of the business income, the property tax shall be paid according to 1.2% of the remaining value after deducting 30% from the original value of the property at one time, and the land use tax shall be paid according to the land area.

For the forecast results of taxes and surcharges in the future, please refer to the table below:

Currency Unit: RMB0'000

No.	Tax category	Tax base	Tax rate (tax amount)	Forecast year							
				2022	2023	2024	2025	2026	2027	2028	2029
1	Urban construction and maintenance tax	Value added tax	7%	2.97	2.99	2.96	2.94	1.55	2.89	2.87	2.84
2	Education surcharge	Value added tax	3%	1.27	1.28	1.27	1.26	0.66	1.24	1.23	1.22
3	Local education surcharge	Value added tax	2%	0.85	0.85	0.85	0.84	0.44	0.83	0.82	0.81
4	Local water conservancy construction fund	Taxable income	0%	1.24	1.26	1.26	1.26	1.26	1.26	1.26	1.26
5	Property tax			1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74
6	Land use tax			43.70	43.70	43.70	43.70	43.70	43.70	43.70	43.70
7	Vehicle and vessel use tax			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
8	Stamp tax	Purchase and sales contract	0%	0.62	0.63	0.63	0.63	0.63	0.63	0.63	0.63
	Total taxes and surcharges			52.41	52.46	52.42	52.38	50.00	52.30	52.25	52.21

No.	Tax category	Tax base	Tax rate (tax amount)	Forecast year							
				2030	2031	2032	2033	2034	2035	2036	2037
1	Urban construction and maintenance tax	Value added tax	7%	2.81	1.42	2.76	2.73	2.71	2.68	1.29	1.32
2	Education surcharge	Value added tax	3%	1.21	0.61	1.18	1.17	1.16	1.15	0.55	0.56
3	Local education surcharge	Value added tax	2%	0.80	0.41	0.79	0.78	0.77	0.77	0.37	0.38
4	Local water conservancy construction fund	Taxable income	0%	1.26	1.26	1.26	1.26	1.26	1.26	1.26	0.63
5	Property tax			1.74	1.74	1.74	1.74	1.74	1.74	1.74	0.87
6	Land use tax			43.70	43.70	43.70	43.70	43.70	43.70	43.70	21.85
7	Vehicle and vessel use tax			0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
8	Stamp tax	Purchase and sales contract	0%	0.63	0.63	0.63	0.63	0.63	0.63	0.63	0.32
	Total taxes and surcharges			52.16	49.78	52.08	52.03	51.98	51.93	49.54	25.94

(IV) Administration Expenses

Administrative expenses mainly comprise salary, depreciation, plant greening expense and other expenses. The salary is predicted based on the number of sales personnel and the average salary. For depreciation and amortization, see “Forecast of Depreciation and Amortization “ below. The plant greening expense is mainly predicted based on the current contract and the expected growth rate.

For the forecast results of management expenses, please refer to the table below:

Currency Unit: RMB0'000

No.	Item	2022	2023	2024	Forecast year				
					2025	2026	2027	2028	2029
1	Salary	35.00	35.80	36.60	37.45	38.30	39.20	40.10	41.00
2	Labour union funds	2.49	2.55	2.60	2.66	2.72	2.79	2.85	2.92
3	Housing provident fund	3.53	3.61	3.69	3.78	3.86	3.96	4.05	4.14
4	Social insurance	8.86	9.06	9.26	9.48	9.69	9.92	10.15	10.38
5	Depreciation expense	2.70	2.70	2.04	0.08	0.00	0.00	0.00	0.00
6	Business entertainment expense	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
7	Audit expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
8	Office expense	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
9	Postage	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
10	Vehicle use expense	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
11	Repair expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
12	Long-distance travel expense	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
13	Greening expense	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
14	Labour expense	9.92	9.92	9.92	9.92	9.92	9.92	9.92	9.92
15	Consulting expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16	Others	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	Total	86.32	87.46	87.94	87.19	88.32	89.60	90.89	92.17

No.	Item	2030	2031	2032	Forecast year				
					2033	2034	2035	2036	2037
1	Salary	41.95	42.90	43.90	44.90	45.95	47.00	48.10	24.60
2	Labour union funds	2.98	3.05	3.12	3.19	3.27	3.34	3.42	1.75
3	Housing provident fund	4.23	4.33	4.43	4.53	4.64	4.74	4.85	2.48
4	Social insurance	10.62	10.86	11.11	11.36	11.63	11.89	12.17	6.23
5	Depreciation expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6	Business entertainment expense	5.00	5.00	5.00	5.00	5.00	5.00	5.00	2.50
7	Audit expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50
8	Office expense	3.00	3.00	3.00	3.00	3.00	3.00	3.00	1.50
9	Postage	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.11
10	Vehicle use expense	1.50	1.50	1.50	1.50	1.50	1.50	1.50	0.75
11	Repair expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50
12	Long-distance travel expense	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.05
13	Greening expense	10.00	10.00	10.00	10.00	10.00	10.00	10.00	5.00
14	Labour expense	9.92	9.92	9.92	9.92	9.92	9.92	9.92	4.96
15	Consulting expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
16	Others	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00
	Total	93.52	94.88	96.30	97.73	99.22	100.72	102.29	51.93

(V) Other Income

Other income mainly refers to the immediate collection and refund of value-added tax of wastewater treatment plant. According to the Notice on Directory of VAT Concessions on Comprehensive Utilization of Goods and Services issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78) (財政部、國家稅務總局關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知(財稅[2015]78號)), since 1 July 2015, taxpayers who sell self-produced products for comprehensive utilisation of resources and provide labour services for comprehensive utilisation of resources (hereinafter referred to as sales of products and labour services for comprehensive utilisation of resources) can enjoy the policy of immediate collection and refund of value-added tax, of which the tax rebate rate for wastewater treatment labour services is 70%. In this valuation, the value-added tax is calculated by combining the output tax and input tax of the appraised entity, and the wastewater treatment value-added tax is collected and refunded according to the rebate rate of 70%. The specific forecast is as follows:

Currency Unit: RMB0'000

No.	Item	2022	2023	2024	Forecast year				
					2025	2026	2027	2028	2029
1	The immediate collection and refund of value-added tax of wastewater treatment	29.72	29.86	29.62	29.38	15.49	28.90	28.66	28.40
	Total	29.72	29.86	29.62	29.38	15.49	28.90	28.66	28.40

No.	Item	2030	2031	2032	Forecast year				
					2033	2034	2035	2036	2037
1	The immediate collection and refund of value-added tax of wastewater treatment	28.14	14.24	27.63	27.35	27.07	26.79	12.86	13.17
	Total	28.14	14.24	27.63	27.35	27.07	26.79	12.86	13.17

(VI) Forecast of Income Tax

In accordance with Article 88 of the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅實施條例》), the Company can apply for the preferential policy of “three exemptions and three reductions in half”, that is, the enterprise income tax is exempted from the first year to the third year after the start of the operation period, and the enterprise income tax is reduced by half from the fourth year to the sixth year. As of the valuation reference date, the enterprise income tax rate of the appraised entity is 25%. The income tax forecast is based on the normal tax rate. The income tax forecast is as follows:

Currency Unit: RMB0'000

No.	Income/expense	2022	2023	2024	Forecast year				
					2025	2026	2027	2028	2029
1	Current income tax calculated according to tax law and relevant regulations	191.14	193.89	195.39	195.94	187.87	185.38	183.55	181.59
	Total	191.14	193.89	195.39	195.94	187.87	185.38	183.55	181.59

No.	Income/expense	2030	2031	2032	Forecast year				
					2033	2034	2035	2036	2037
1	Current income tax calculated according to tax law and relevant regulations	179.61	174.80	175.63	173.50	203.57	259.76	254.76	128.28
	Total	179.61	174.80	175.63	173.50	203.57	259.76	254.76	128.28

(VII) Forecast of Depreciation and Amortization

The fixed assets of the appraised entity mainly include vehicles and electronic equipment. Fixed assets are valued at the actual cost at the time of acquisition. The current valuation is based on the fixed assets depreciation policy implemented by the appraised entity, taking into account the factors such as the audited book value, depreciation life, residual value rate, accrued depreciation amount and weighted depreciation rate of the fixed assets on the valuation reference date, as well as the increased depreciation of the fixed assets purchased by the appraised entity due to the new fixed assets investment in the future years, and forecasts the depreciation amount in the future operation period.

The amortization of the appraised entity is mainly intangible assets. Among them, the intangible assets are mainly the franchise rights of the appraised entity. This valuation is based on the original book value, amortization period and accrued amortization amount of the audited intangible assets on the valuation reference date, and takes into account the amortization expenses of the appraised entity in the future years due to the new intangible assets.

The forecast table of depreciation and amortization is as follows:

		<i>Currency Unit: RMB0'000</i>							
No.	Item	2022	2023	2024	2025	2026	2027	2028	2029
1	Depreciation	6.18	6.18	4.39	0.84	14.57	28.50	28.50	28.50
2	Amortization	422.59	420.49	409.42	403.53	403.53	403.53	403.53	403.53
	Total	428.77	426.67	413.81	404.38	418.10	432.03	432.03	432.03
No.	Item	2030	2031	2032	2033	2034	2035	2036	2037
1	Depreciation	28.50	28.50	28.50	28.50	28.50	28.50	28.50	28.50
2	Amortization	403.53	403.53	403.53	403.53	274.68	41.32	41.32	28.03
	Total	432.03	432.03	432.03	432.03	303.18	69.82	69.82	56.53

(VIII) Forecast of Capital Expenditure

Capital expenditure refers to the long-term capital investment that the appraised entity needs to increase for more than one year without changing the current business conditions, including the amount of capital investment that needs to be increased due to the expansion of business scale in the future years (purchase of fixed assets or other non-current assets). As the appraised entity is a wastewater treatment plant, in combination with the actual use of the assets of the appraised entity and the compliance of the relevant industries, and in accordance with the provisions of the franchise right, the Company needs to carry out restorative maintenance of the overall assets before the expiration of the operation period. This valuation is based on the five-year major technical renovation and maintenance, and the amount of each technical renovation and maintenance is RMB1.5 million. The details are as follows:

		<i>Currency Unit: RMB0'000</i>								
No.	Capital expenditure (excluding tax)	2022	2023	2024	Forecast period		2027	2028	2029	2030
					2025	2026				
1	Machinery equipment					150.00				
	Total	—	—	—	—	150.00	—	—	—	—
No.	Capital expenditure (excluding tax)			Forecast period						
		2031	2032	2033	2034	2035	2036	2037		
1	Machinery equipment	150.00					150.00			
	Total	150.00	—	—	—	—	150.00	—	—	—

(IX) Forecast of Increase in Working Capital**1. Forecast of minimum cash holdings**

To maintain normal operation, enterprises usually need a certain amount of cash holdings. Based on the analysis of the cash turnover rate and cash-out cost of the working capital of the appraised entity in each period of its historical operation, the cash holding amount in the working capital of the appraised entity is about one month's cash-out cost.

2. Increase in working capital

The increase in working capital refers to the newly added working capital required by the enterprise to maintain the continuous operation ability of the enterprise without changing its current principal business, such as cash, inventory, receivables and other basic funds and payables required for normal operation. The addition of working capital refers to the cash used to obtain the commercial credit of others with the change of operating activities of the enterprise. At the same time, in economic activities, providing commercial credit can also reduce the immediate payment of cash. The accounting contents of other accounts receivable and other accounts payable are mostly irrelevant to the principal business or temporary transactions, which need to be determined by specific screening of their relevance and differences with the principal business of the appraised entity. Therefore, in principle, only the main factors such as cash, receivables, inventory and payables that need to be maintained for normal operation need to be considered when evaluating the increase in working capital. The increase in working capital defined in this report is:

Increase in working capital = working capital of the current period – working capital of the previous period

Of which, working capital = minimum cash holdings + receivables + inventory (raw materials only) – payables

Of which:

Receivables = total income from principal business/turnover rate of receivables

Of which, receivables mainly include accounts receivable, prepayments, and other receivables related to business operations.

Inventory = total direct materials/turnover rate of raw materials

Payables = total costs of principal business/turnover rate of payables

Of which, payables mainly include accounts payable, accounts received in advance, contractual liabilities, and other payables related to business operations.

According to the valuation assumptions, the structure of principal business, the composition of income and costs, and the business strategy of the appraised entity in the future operation period will continue based on the status determined by the relevant business contracts or agreements with legal effect after the Valuation Reference Date, without major changes. This valuation mainly, referring to the settlement period determined by the relevant business contracts or agreements with legal effect on the Valuation Reference Date, and combining with the statistical analysis of the historical assets and operating income and costs, and the estimated income and costs of each year in the future operation period of the appraised entity, predicted and obtained the increase in working capital of each year in the future operation period, as shown in the following table:

Currency Unit: RMB0'000

Item	Working capital on the Valuation Reference Date	2022	2023	2024	2025	2026	2027	2028	2029
		2030	2031	2032	2033	2034	2035	2036	2037
Operating income		2,074.33	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28
Working capital requirements	86.26	36.96	38.10	39.66	40.26	39.75	34.17	33.57	32.92
Additional working capital required		-49.30	1.15	1.55	0.60	-0.51	-5.58	-0.60	-0.66
Operating income		2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	1,050.51
Working capital requirements		32.27	34.14	30.97	30.26	52.29	92.75	94.57	—
Additional working capital required		-0.65	1.87	-3.17	-0.71	22.02	40.46	1.83	-94.57

III. DETERMINATION OF DISCOUNT RATE

Since the income approach valuation model adopts the enterprise free cash flow discount model, the discount rate r is calculated and determined by the weighted average cost of capital model (WACC) according to the principle of unifying the expected income and the discount rate. Then:

$$r = r_d \times w_d + r_e \times w_e$$

Wherein: W_d : Debt ratio of the valuation subject;

$$w_d = \frac{D}{(E + D)}$$

W_e : Equity ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)}$$

r_d : Cost of debt after tax of the valuation subject;

r_e : Cost of equity capital. The cost of equity capital r_e is determined based on the capital asset pricing model (CAPM) in this valuation;

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon$$

Wherein: r_f : Risk-free rate of return;

r_m : Expected market rate of return;

ε : Characteristic risk adjustment coefficient of the valuation subject;

β_e : Expected market risk coefficient of equity capital of the valuation subject;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E})$$

β_u : Unleveraged market risk coefficient of comparable companies;

$$\beta_u = \frac{\beta_i}{1 + (1 - t) \frac{D_i}{E_i}}$$

β_i : Expected average market risk coefficient of shares of comparable company;

$$\beta_i = 34\%K + 66\%\beta_x$$

Wherein: K : Average risk value of stock market in a certain period, usually assuming $K=1$;

β_x : Historical average market risk coefficient of shares of comparable company;

D_i and E_i : Interest-bearing debt and equity capital of comparable companies, respectively.

Of which, the valuers refer to the yield data of China's treasury bond trading market near the Valuation Reference Date, and select the yield of the treasury bond that is close to the yield period of the equity to be appraised as the risk-free rate of return.

1. Risk-free rate of return r_f

After consulting the website of China Appraisal Society, the yields of treasury bonds provided by China Central Depository & Clearing Co., Ltd. (CCDC) published on the website are as follows:

Yields of China's Treasury Bonds		
Date	Term	Current date (%)
2021-12-31	3 months	1.99
	6 months	1.99
	1 year	2.11
	2 years	2.30
	3 years	2.34
	5 years	2.54
	7 years	2.78
	10 years	2.78
	30 years	3.38

This valuation is based on the assumption of going concern, and the yield period of the entrusted valuation subject is infinite years. According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), the yield to maturity of the treasury bonds with a remaining maturity of 10 years or more can be used as the risk-free interest rate. The yield of 10-year treasury bonds is used as the risk-free interest rate in this valuation, that is, $r_f=2.78\%$.

2. Expected market rate of return r_m

Market risk premium refers to the expected excess return required by investors for equity investment with the same average risk as the overall market, that is, the risk compensation that exceeds the risk-free interest rate. The market risk premium can usually be measured by using the historical risk premium data of the market. In this valuation, the long-term average rate of return of China's A-share market index is taken as the expected market rate of return r_m , and the part of the expected market rate of return that exceeds the risk-free interest rate is taken as the market risk premium.

According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), when calculating the market risk premium by using China's securities market index, representative indexes shall be selected in general, such as the Shanghai and Shenzhen 300 Index, Shanghai Securities Composite Index, etc.; when calculating the excess rate of return of the index in a historical period, the time span can be more than 10 years, the data frequency can be weekly or monthly, and the calculation method can be arithmetic average or geometric average.

According to the follow-up study on China's A-share market conducted by the Research Institute of Allied Asset Appraisal Group, and in combination with the provisions of the above guidelines, in the valuation process, the representative Shanghai Securities Composite Index is selected as the underlying index, the weekly and monthly basis is selected as the data frequency, the arithmetic average is used to calculate and annualized to the annual rate of return. Thereafter, the arithmetic average, geometric average and harmonic average are calculated respectively, and the expected market rate of return is determined after comprehensive analysis, that is, $r_m=10.46\%$.

$$\text{Market risk premium} = r_m - r_f = 10.46\% - 2.78\% = 7.68\%.$$

3. Expected market risk coefficient of equity capital β_e

Based on the shares of Shanghai and Shenzhen listed companies in the water production and supply industry by the WIND classification, considering the comparability of the appraised entity and comparable companies in terms of business type, business size, profitability, growth, industry competitiveness, development stage and other factors, the valuers selected appropriate comparable companies, and took the Shanghai Securities Composite Index as the underlying index. After consulting the financial terminal of WIND Information, based on the market price as of the Valuation Reference Date, the valuers calculated and got the estimated β_u of the expected risk coefficient without financial leverage of shares of comparable companies according to the calculation period of 250 weeks before the Valuation Reference Date, and the expected market risk coefficient ($\beta_e=0.5637$) of the equity capital of the appraised entity according to the average capital structure of the industry.

4. Characteristic risk adjustment coefficient ε and cost of equity capital r_e

When determining the discount rate, it is necessary to consider the differences between the valuation subject and listed companies in terms of business size, business development stage, core competitiveness, dependence on key customers and key suppliers, financing capacity and financing cost, and stability of profit forecast, so as to determine the specific risk coefficient. During the valuation process, the valuers compared and analyzed the enterprise and the comparable listed companies, and obtained the characteristic risk coefficient, that is, $\varepsilon=0.55\%$, the specific process is shown in the following table:

Characteristic Risk Coefficient Analysis Table

No.	Risk factor	Description of influencing factors	Value of influencing factors	Weight	Adjustment coefficient
1	Business size	The appraised entity has relatively poor business size compared with the average level of the comparable listed companies	3	10	0.3
2	Business development stage	As a start-up enterprise, the appraised entity has a slightly poor business development compared with the comparable companies	0.5	20	0.1
3	Core competitiveness	The enterprise has independent intellectual property rights, strong R&D ability and strong independent ability in business development, there is no significant difference compared with the comparable listed companies	0	20	0
4	Dependence on upstream and downstream industries	The enterprise has relatively high concentration of corporate customers and dependent on customers, and weak bargaining capability, there is no significant difference compared with the comparable listed companies	0	10	0
5	Financing capacity and financing cost	The enterprise has relatively poor financing ability (mainly relying on related parties to provide financial support) and high financing cost. However, less funds are needed in the future	0	15	0
6	Stability of profit forecast	The enterprise has relatively stable profit forecast, and the future annual growth rate is related to the industry level	0	20	0
7	Other factors	The enterprise has sufficient supporting information for profit forecast and high degree of realizability	1	5	0.05
Total				100	0.45

5. Selection of debt cost r_d

Since the appraised entity has no loan, the debt cost r_d in this valuation is zero.

6. Determination of debt-to-equity ratio D/E

The debt-to-equity ratio in this valuation is selected to be nil.

7. Discount rate r (WACC)

The above parameters are then substituted into the formulas to get the discount rates as follows:

Discount rate parameter		2022	2023	2024	2025	2026	2027	2028	2029
Discount rate (i.e., weighted average cost of capital)	$WACC = K_e \times E / (D+E) + K_d \times D / (D+E) \times (1 - T)$	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Cost of equity capital	$K_e = R_f + \beta \times R_{Pm} + R_c$	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Risk-free rate of return	Rf	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%
Beta without financial leverage	β_U	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Beta with financial leverage	$\beta_L = (1 + (1 - T) \times D/E) \times \beta_U$	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Income tax rate	T	25%	25%	25%	25%	25%	25%	25%	25%
Market risk premium	R _{Pm}	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%
Enterprise-specific risk adjustment coefficient	R _c	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Capital structure of the target company	D/E	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	E/(D+E)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	D/(D+E)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of debt capital	K _d	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Discount rate parameter		2030	2031	2032	2033	2034	2035	2036	2037
Discount rate (i.e., weighted average cost of capital)	$WACC = K_e \times E / (D+E) + K_d \times D / (D+E) \times (1 - T)$	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Cost of equity capital	$K_e = R_f + \beta \times R_{Pm} + R_c$	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Risk-free rate of return	Rf	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%
Beta without financial leverage	β_U	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Beta with financial leverage	$\beta_L = (1 + (1 - T) \times D/E) \times \beta_U$	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Income tax rate	T	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Market risk premium	R _{Pm}	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%
Enterprise-specific risk adjustment coefficient	R _c	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Capital structure of the target company	D/E	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	E/(D+E)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	D/(D+E)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of debt capital	K _d	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

IV. VALUE OF OPERATING ASSETS P

The expected free cash flow will be substituted into the calculation formula of operating assets to obtain the value of operating assets of the target company. The calculation results are shown in the following table:

Item	<i>Currency Unit: RMB0'000</i>							
	2022	2023	2024	2025	2026	2027	2028	2029
I. Operating income	2,074.33	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28
Less: operating costs	1,200.77	1,209.67	1,203.00	1,201.34	1,220.98	1,240.74	1,246.60	1,252.95
Tax and surcharges	52.41	52.46	52.42	52.38	50.00	52.30	52.25	52.21
Sales expenses	—	—	—	—	—	—	—	—
Administrative expenses	86.32	87.46	87.94	87.19	88.32	89.60	90.89	92.17
R&D expenses	—	—	—	—	—	—	—	—
Finance expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: other income	29.72	29.86	29.62	29.38	15.49	28.90	28.66	28.40
Investment income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Credit impairment loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assets impairment loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income from asset disposal	—	—	—	—	—	—	—	—
II. Operating profit	764.56	775.55	781.54	783.75	751.47	741.54	734.20	726.35
Add: non-operating income	—	—	—	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—	—	—	—
III. Total profit	764.56	775.55	781.54	783.75	751.47	741.54	734.20	726.35
Less: income tax	191.14	193.89	195.39	195.94	187.87	185.38	183.55	181.59
IV. Net profit	573.42	581.67	586.16	587.82	563.60	556.15	550.65	544.76
Add: depreciation and amortization	428.77	426.67	413.81	404.38	418.10	432.03	432.03	432.03
After-tax interest expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less: capital expenditure	0.00	0.00	0.00	0.00	150.00	0.00	0.00	0.00
Increase in working capital	-49.30	1.15	1.55	0.60	-0.51	-5.58	-0.60	-0.66
Add: disposal of fixed assets	—	—	—	—	—	—	—	—
V. Free cash flow	1,051.49	1,007.19	998.41	991.59	832.21	993.76	983.28	977.45
VI. Discount rate	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Discount period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50
Discount coefficient	0.9642	0.8964	0.8334	0.7748	0.7204	0.6697	0.6226	0.5789
Discounted value	1,013.85	902.84	832.08	768.29	599.53	665.52	612.19	565.84

Item	2030	2031	2032	2033	2034	2035	2036	2037
I. Operating income	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	2,095.28	1,050.51
Less: operating costs	1,259.30	1,265.65	1,271.99	1,278.86	1,156.87	930.36	937.25	472.71
Tax and surcharges	52.16	49.78	52.08	52.03	51.98	51.93	49.54	25.94
Sales expenses	—	—	—	—	—	—	—	—
Administrative expenses	93.52	94.88	96.30	97.73	99.22	100.72	102.29	51.93
R&D expenses	—	—	—	—	—	—	—	—
Finance expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: other income	28.14	14.24	27.63	27.35	27.07	26.79	12.86	13.17
Investment income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Credit impairment loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assets impairment loss	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income from asset disposal	—	—	—	—	—	—	—	—
II. Operating profit	718.43	699.21	702.54	694.01	814.27	1,039.06	1,019.06	513.11
Add: non-operating income	—	—	—	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—	—	—	—
III. Total profit	718.43	699.21	702.54	694.01	814.27	1,039.06	1,019.06	513.11
Less: income tax	179.61	174.80	175.63	173.50	203.57	259.76	254.76	128.28
IV. Net profit	538.82	524.41	526.90	520.51	610.70	779.29	764.29	384.83
Add: depreciation and amortization	432.03	432.03	432.03	432.03	303.18	69.82	69.82	56.53
After-tax interest expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less: capital expenditure	0.00	150.00	0.00	0.00	0.00	0.00	150.00	0.00
Increase in working capital	-0.65	1.87	-3.17	-0.71	22.02	40.46	1.83	-94.57
Add: disposal of fixed assets	—	—	—	—	—	—	—	0.00
V. Free cash flow	971.50	804.56	962.11	953.25	891.86	808.65	682.29	535.94
VI. Discount rate	8%	8%	8%	8%	8%	8%	8%	8%
Discount period	8.50	9.50	10.50	11.50	12.50	13.50	14.50	15.25
Discount coefficient	0.5382	0.5003	0.4652	0.4325	0.4021	0.3738	0.3475	0.3231
Discounted value	522.86	402.52	447.57	412.28	358.62	302.27	237.09	173.16
VII. Discounted value of free cash flow	8,816.51	—	—	—	—	—	—	—

The discounted value of free cash flow of the appraised entity is RMB88,165,100.

V. VALUE OF SURPLUS OR NON-OPERATING ASSETS

Surplus assets refer to the surplus assets that are not directly related to the income of the appraised entity and exceed the business needs of the appraised entity. After analysis, the appraised entity has no surplus assets.

Non-operating assets (liabilities) refer to the assets (liabilities) that have no direct and obvious relationship with the operating cash flow of the appraised entity or that do not generate benefits, which are not included in the range of the forecast of the net cash flow. According to the analysis, the non-operating assets of the appraised entity mainly include the current borrowings of related parties and interest receivable from related parties; non-operating liabilities are mainly loans and interest payable by related party, details of which are as follows:

			<i>Currency Unit: RMB0'000</i>	
No.	Name of item	Content of business	Book value	Appraised value
Non-operating assets and liabilities, net			835.79	835.79
I	Non-operating assets		3,497.98	3,497.98
1	Other receivables	Current borrowings of related parties and interest receivable from related parties	3,261.34	3,261.34
2	Other current assets	Withholding enterprise income tax, deferred expenses	236.64	236.64
II	Non-operating liabilities		2,662.19	2,662.19
1	Other payables	Borrowings due from shareholders and interest payable	2,662.19	2,662.19

In this valuation, the abovementioned value of surplus or non-operating assets (liabilities) is separately assessed, and the appraised value of the surplus or non-operating assets (liabilities) of the appraised entity as at the Valuation Reference Date is:

$$C = C1 + C2 = 835.79 \text{ (RMB0'000)}$$

VI. VALUATION RESULTS USING THE INCOME APPROACH

1. Overall Value of the Enterprise B

$$\begin{aligned} \text{Overall value of the enterprise B} &= \text{value of operating assets P} + \text{value of surplus and} \\ &\quad \text{non-operating assets (liabilities) C} \\ &= 8,816.51 + 835.79 \\ &= 9,652.30 \text{ (RMB0'000)} \end{aligned}$$

2. Value of Interest-bearing Debt D

As of the Valuation Reference Date, the interest-bearing debt of the appraised entity was RMB Nil.

3. Value of the Entire Equity Interest of Shareholders E

According to the above appraisal work, the value of the entire equity interest of shareholders of the appraised entity is:

$$\begin{aligned} \text{Value of the entire equity interest of shareholders} &= \text{overall value of the enterprise B} - \text{value of} \\ &\quad \text{interest-bearing debt D} \\ &= 9,652.30 - 0.00 \\ &= 9,652.30 \text{ (RMB0'000)} \end{aligned}$$

* *For identification purposes only*

This asset valuation report has been prepared in accordance with the PRC Accepted Asset Valuation Standards

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
INVESTMENT CO., LIMITED* INVOLVING THE ENTIRE SHAREHOLDERS'
EQUITY IN LU'AN YEJI YUNSHUI WATER INVESTMENT CO., LTD.***

(ZLGJPZ [2022] No. VIGPA0416)

ALLIED APPRAISAL CO., LTD.

31 October 2022

Statement on Asset Valuation Report

1. This asset valuation report has been prepared in accordance with the *Basic Standards for Asset Valuation* issued by the Ministry of Finance and the *Practice Standards and Professional Code of Ethics for Asset Valuation* issued by China Appraisal Society.
2. The entrusting party or other users of the asset valuation report shall use the asset valuation report in accordance with the provisions of laws, administrative regulations and within the scope of use set out in the asset valuation report. The asset valuation agency and its asset valuation professionals take no responsibility for any non-compliance with the above-mentioned requirements for the use of the asset valuation report by the entrusting party or other users of the asset valuation report.
3. The asset valuation report shall only be used by the entrusting party, other users of the asset valuation report agreed in the Asset Valuation Engagement Contract and the users of the asset valuation report stipulated by laws and administrative regulations. Save for the above, any other institution and individual shall not become the users of the asset valuation report.
4. The users of the asset valuation report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equal to the realizable price of the valuation subject, and the valuation conclusion should not be considered as the guarantee for the realizable price of the valuation subject.
5. The users of the asset valuation report shall pay attention to the assumptions and premises of the valuation conclusion, the explanations to special matters and the restrictions on use of the asset valuation report.
6. The list of assets and liabilities included in the valuation scope as well as the predictive financial information and ownership certificates required for the valuation have been provided by the entrusting party and other relevant parties and confirmed with seals or other methods. The entrusting party shall be responsible for the authenticity, integrity and legality of the ownership certificates, financial and accounting information and other information provided by it according to law.
7. Although the asset valuation agency and its asset valuation professionals have checked and verified the relevant ownership certificates of the asset valuation subject, they are unable to guarantee its legal ownership.
8. The asset valuation agency and its asset valuation professionals shall abide by the laws, administrative regulations and the asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and assume responsibility for the asset valuation report issued according to law.

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
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(ZLGJPZ [2022] No. VIGPA0416)

SUMMARY

Important Notice

This summary has been extracted from the main body of the asset valuation report. To understand the details of the valuation project and understand the valuation conclusion correctly, you should carefully read the main body of the asset valuation report.

According to the engagement, Allied Appraisal Co., Ltd. has conducted a valuation on the valuation subject corresponding to the valuation purpose by adhering to the principles of independence, objectivity and impartiality, adopting appropriate valuation approaches, and following the necessary valuation procedures in accordance with the provisions of laws, administrative regulations and the asset valuation standards. The summary of the asset valuation is as follows:

Entrusting party: Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司).

Appraised entity: Lu'an Yeji Yunshui Water Investment Co., Ltd.* (六安市葉集區雲水水務投資有限公司).

Relevant economic activities: According to the *Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.** (《關於雲南水務投資有限公司擬轉讓六安市葉集區雲水水務投資有限公司及凱發污水處理(明光)有限公司100%股權專題會議紀要》) (Issue 66) held by Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (the superior entity of the entrusting party) on 27 May 2022 and the relevant approvals, as well as the *Resolution of the 200th Meeting of the First Session of Board of Directors* (《第一屆董事會第200次會議決議》) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (YKLDJTZ [2022] No. 11) on 20 June 2022, the transfer of 100% equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* through public tender was hereby agreed.

Valuation purpose: to provide the reference for the market value of the valuation subject for the purpose of the proposed equity transfer by the entrusting party.

Valuation subject: the value of entire shareholders' equity in Lu'an Yeji Yunshui Water Investment Co., Ltd.*.

Valuation scope: all assets and related liabilities owned by Lu'an Yeji Yunshui Water Investment Co., Ltd.* on the Valuation Reference Date, including current assets, intangible assets, fixed assets and other assets and corresponding liabilities, as well as the overall intangible assets not stated in the account.

Value type: market value.

Valuation Reference Date: 31 December 2021.

Valuation methodology: income approach and asset-based approach.

Valuation conclusion: after considering the applicability of the valuation methodology, the valuation purpose and the valuation subject, the valuation results of the income approach has been selected as the valuation conclusion.

Based on the judgment of the management of the appraised entity on the future development trend and the business planning, the valuation conclusion of the market value of the entire shareholders' equity in Lu'an Yeji Yunshui Water Investment Co., Ltd.* on the Valuation Reference Date is as follows: the book value was Renminbi forty-four million eighty-two thousand (RMB44,082,000); the appraised value amounted to Renminbi eighty-seven million two hundred and ninety-five thousand nine hundred (RMB87,295,900); representing an increase of Renminbi forty-three million two hundred and fourteen thousand (RMB43,214,000) with an appreciation rate of 98.03%.

Validity period of the valuation conclusion: according to the asset valuation standards and relevant regulatory provisions, on the basis that there is no significant change in the valuation assumptions and restrictions set out in this report, generally, this valuation report can be used when the difference between the Valuation Reference Date and the date of realization of economic activities is not more than one year, that is, from 31 December 2021 to 30 December 2022.

Explanations to special matters:

During the valuation, the valuers found that one of the assets included in the valuation subject has the name of the obligee stated in the land use right certificate inconsistent with that of the actual user. The land use right certificate states that the obligee is Yeji Pilot Zone Urban Wastewater Treatment Co., Ltd.* (葉集試驗區城市污水處理有限責任公司), and the actual user is Lu'an Yeji Yunshui Water Investment Co., Ltd.*. At the same time, as of the Valuation Reference Date, the completed buildings included in the valuation scope have not yet obtained relevant property right certificates.

According to the introduction of the appraised entity, failure to handle the ownership change of the land use right and failure to handle the property right certificate of the buildings are mainly due to historical reasons. According to the franchise transfer agreement, "the appraised entity enjoys the right to use the transferred assets and the relevant rights and interests in the relevant documents and information and bears all risks during the franchise period." To sum up, the land use right, the building use right and other rights and interests are actually held by the appraised entity, and the property has been used normally without any property right dispute as of the Valuation Reference Date. Due to the less handling fees required for the above registration of ownership change, the impact of the fees for registration of ownership change on the asset value has not been considered in the valuation.

Application of valuation conclusion:

The valuation conclusion disclosed in the summary of the valuation report is used as the reference for the entrusting party to realize the relevant economic activities, but it does not guarantee the realization of the relevant economic activities. It is only used by the entrusting party and other users of the report for the purpose of the valuation described in the report within the validity period of the valuation conclusion.

When using the valuation conclusion, the users of the valuation report are specially reminded to pay attention to the impact of the valuation assumptions, explanations to special matters, limiting conditions and subsequent major events on the valuation conclusion stated in the main body of the valuation report, and to properly use the valuation report.

Unless otherwise specified by laws and regulations, the content of this summary shall not be extracted, quoted or disclosed to the public media without the written consent of the valuation agency and the signed asset valuers.

According to the relevant laws and regulations on asset valuation, the asset valuation report involving legal valuation business shall be used after the entrusting party has performed the supervision and management procedures for asset valuation in accordance with the laws and regulations.

**ASSET VALUATION REPORT IN RELATION TO
THE VALUE OF THE PROPOSED EQUITY TRANSFER OF YUNNAN WATER
INVESTMENT CO., LIMITED* INVOLVING THE ENTIRE SHAREHOLDERS'
EQUITY IN LU'AN YEJI YUNSHUI WATER INVESTMENT CO., LTD.***

(ZLGJPZ [2022] No. VIGPA0416)

To Yunnan Water Investment Co., Limited*:

According to the engagement, Allied Appraisal Co., Ltd. has conducted a valuation on the market value of the proposed equity transfer of Yunnan Water Investment Co., Limited* involving the entire shareholders' equity in Lu'an Yeji Yunshui Water Investment Co., Ltd.* on 31 December 2021 by adhering to the principles of independence, objectivity and impartiality, adopting the income approach and asset-based approach, and following the necessary valuation procedures in accordance with the provisions of laws, administrative regulations and the asset valuation standards. The asset valuation is reported as follows:

**I. THE ENTRUSTING PARTY, THE APPRAISED ENTITY AND OTHER USERS
OF THE ASSET VALUATION REPORT AGREED IN THE ASSET VALUATION
ENGAGEMENT CONTRACT**

(I) Entrusting Party

Name: Yunnan Water Investment Co., Limited*

Unified social credit code: 915301005772605877

Registered Address: Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province

Legal representative: Li Bo

Registered capital: RMB1,193,213,457

Date of establishment: 21 June 2011

Operation duration: 21 June 2011 to long term

Business scope: investment in urban water supply, wastewater treatment, reclaimed water reuse and environmental governance projects of water solid waste treatment and management of the invested projects; technical consultation on environmental governance; sales of environmental protection equipment (projects that need to be approved according to law can only be operated after being approved by relevant authorities)

(2) Appraised Entity**1. Basic information**

Name: Lu'an Yeji Yunshui Water Investment Co., Ltd.*

Unified social credit code: 91341500MA2MRDWU2L

Legal address and business place: Tuanjie Road, Yeji District, Lu'an City, Anhui Province

Legal representative: Wang Xiangqing

Registered capital: RMB43 million

Date of establishment: 17 December 2015

Operation duration: 17 December 2015 to 16 December 2045

Business scope: general business items: urban water supply and drainage, renewable water use, industrial wastewater and solid waste treatment and utilization, air pollution and prevention, investment in environmental improvement projects such as watershed management and soil restoration, and management or entrusted operation of the invested projects or similar projects. (projects that need to be approved according to law can only be operated after being approved by relevant authorities)

Name of shareholder(s), amount and proportion of capital contribution

No.	Name of shareholder(s)	Amount of capital contribution (RMB0'000)	Proportion of capital contribution (%)
1	Yunnan Water Investment Co., Limited*	4,300.00	100.00%
	Total	4,300.00	100.00

2. Historical changes in shareholders’ equity, property rights and operation structure

(1) Historical changes in shareholders, shareholding proportion and equity

The company was established on 17 December 2015, and its then shareholder(s) and shareholding proportion were as follows:

Name of shareholder(s), amount and proportion of capital contribution

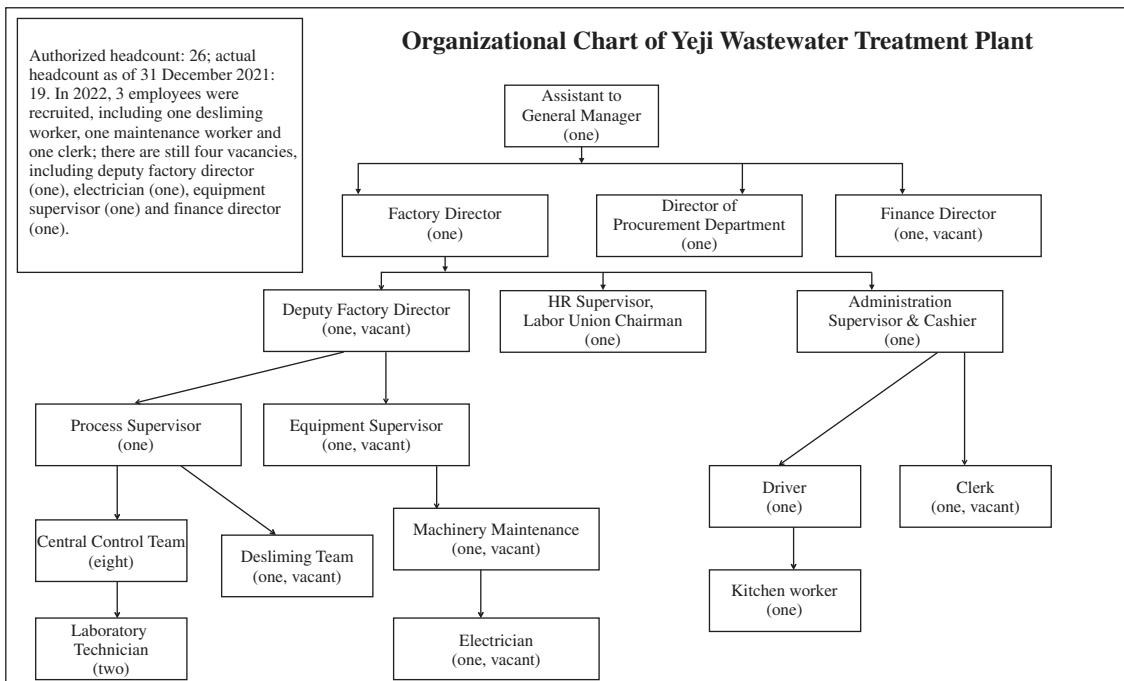
No.	Name of shareholder(s)	Amount of capital contribution (RMB0’000)	Proportion of capital contribution (%)
1	Yunnan Water Investment Co., Limited*	4,300.00	100.00%
Total		4,300.00	100.00

As of the Valuation Reference Date, the amount of capital contribution and shareholding proportion of each shareholder have not changed, and the above shareholder has fully paid in the registered capital.

(2) Corporate property rights and operation structure

As of the Valuation Reference Date, the appraised entity has no branches or foreign investment entities;

As of the Valuation Reference Date, the appraised entity has certain departments, including Operation Department, Finance Department, Administration & Human Resources Department. The organizational chart of the appraised entity is as follows:



3. Relationship between the entrusting party and the appraised entity

The entrusting party of the asset valuation is Yunnan Water Investment Co., Limited*, and the appraised entity is Lu'an Yeji Yunshui Water Investment Co., Ltd.*. The entrusting party is the controlling shareholder of the appraised entity.

4. Assets, finance and operation status in the past three years

(1) Assets and financial position in the past three years

The assets and financial position of the company in the past three years and on the Valuation Reference Date are as follows:

Summary of assets, liabilities and financial position

Item	Currency Unit: RMB0'000		
	31 December 2019	31 December 2020	31 December 2021
Total assets	12,669.43	13,524.53	14,618.88
Total liabilities	8,939.33	9,439.28	10,210.68
Shareholders' equity	3,730.10	4,085.25	4,408.20
Item	2019	2020	2021
Operating income	1,453.75	1,882.25	2,051.08
Total profit	-3.19	355.15	402.94
Net profit	-3.19	355.15	402.94
Audit opinion	Unqualified opinion	Unqualified opinion	Unqualified opinion

Note: The financial data from 2019 to 2021 are extracted from the audit report of Lu'an Yeji Yunshui Water Investment Co., Ltd.* (Da Hua Shen Zi [2022] No. 006644) issued by Da Hua Certified Public Accountants (Special General Partnership).

(2) Operation status

Lu'an Yeji Yunshui Water Investment Co., Ltd.* is located in Tuanjie Road, Yeji District, Lu'an City, Anhui Province. The plant covers an area of 50 mu, it mainly collects and treats urban domestic wastewater and part of industrial wastewater in the south of Xintongyang, west of Tongyu Road, north of Bencha River and east of Ruhai River.

According to the PPP Project Franchise Agreement for the Transfer of Franchise Rights of Wastewater Treatment Plant and Supporting Pipelines* (《污水處理廠及配套管網特許經營權轉讓PPP項目特許經營協議》) (hereinafter referred to as the "Phase I Project") signed between the Housing and Urban Rural Development Bureau of Yeji Development and Pilot Zone* (葉集發展試驗區住房和城鄉建設局) and Yunnan Water Investment Co., Limited*, the Management Committee of Yeji Development and Pilot Zone* (葉集發展試驗區區管委會) decided to implement the wastewater treatment purchase service project in the main urban area of Yeji Development Pilot and Zone in the form of government purchase of social services. Among them, the investor will purchase the wastewater treatment plant and supporting

pipelines and other facilities in the main urban area of Yeji Development and Pilot Zone: including a 20,000 ton/day wastewater treatment plant and 47KM of supporting wastewater pipelines in the main urban area, and the project company has built a 20,000 ton/day wastewater treatment plant in the main urban area during the franchise period. The consideration for the transfer of assets and the grant of franchise rights under the project is RMB140 million. Since the next day of the transfer of property rights and interests, the project will enter into commercial operation. The franchise period is 27 years, that is, from 2016 to 2042. The project company will charge the purchase service fee.

According to the *Entrusted Operation Agreement for the Wastewater Treatment Plant (Phase II) of Yeji District, Lu'an City** (《六安市葉集區污水處理廠二期委託運營合同》) signed between Lu'an Yeji District Urban Wastewater Treatment Co., Ltd.* (六安市葉集區城市污水處理有限公司) and the company, the Phase II Project will be operated by entrustment. The Phase II Project has been put into operation since February 2022, and the deadline is consistent with that of the Phase I project.

(3) *Main tax categories and tax rates of the appraised entity*

Tax category	Tax basis	Tax rate
Value added tax	Taxable sales	6%
Urban maintenance and construction tax	Paid in turnover tax	7%
Education surcharges	Paid in turnover tax	3%
Local education surcharges	Paid in turnover tax	2%
Corporate income tax	Taxable income	25%

(III) Users of the Valuation Report other than the Entrusting Party

According to the Asset Valuation Engagement Contract, the users of this valuation report are the entrusting party and the users of the valuation report stipulated by national laws and regulations.

Unless otherwise specified in national laws and regulations, any institution or individual not confirmed by the valuation agency and the entrusting party shall not become the users of the valuation report due to receiving the valuation report.

II. VALUATION PURPOSE

According to the *Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.** (《關於雲南水務投資有限公司擬轉讓六安市葉集區雲水水務投資有限公司及凱發污水處理(明光)有限公司100%股權專題會議紀要》) (Issue 66) held by Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (the superior entity of the entrusting party) on 27 May 2022 and the relevant approvals, as well as the *Resolution of the 200th Meeting of the First Session of Board of Directors* (《第一屆董事會第200次會議決議》) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (YKLDJTZ [2022] No. 11) on 20 June 2022, the transfer of 100% equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* through public tender was hereby agreed. To this end, asset valuation is required.

This asset valuation report is aimed to provide value reference for the economic activities related to the proposed equity transfer by the entrusting party.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject and Valuation Scope

The valuation subject is the value of the entire shareholders' equity in Lu'an Yeji Yunshui Water Investment Co., Ltd.*.

The valuation scope covers all the assets and related liabilities owned by Lu'an Yeji Yunshui Water Investment Co., Ltd.* on the Valuation Reference Date of 31 December 2021, including current assets, intangible assets, fixed assets and other assets and corresponding liabilities, as well as the overall intangible assets not stated in the account. The balance sheet on the Valuation Reference Date is as follows:

	Book amount on Valuation Reference Date		Book amount on Valuation Reference Date
Assets		Liabilities and shareholders' equity	
			<i>Currency Unit: RMB</i>
Current assets:		Current liabilities:	
Monetary capital	1,929,247.34	Short term borrowings	
Financial assets held for trading		Financial liabilities held for trading	
Notes receivable		Notes payable	
Accounts receivable	3,416,000.00	Accounts payable	
Prepayment	115,201.82	Advances from customers	
Interests receivable		Payroll payable	241,386.71
Dividends receivable		Taxes payable	46,119.56
Other receivables	35,007,607.59	Interests payable	
Inventory		Dividends payable	
Non-current assets due within one year		Other payables	101,819,297.72
Other current assets	253,368.79	Non-current liabilities due within one year	
Total current assets	40,721,425.54	Other current liabilities	
Non-current assets:		Total current liabilities	102,106,803.99
Financial assets held for sale		Non-current liabilities:	
Held-to-maturity investments		Long term borrowings	
Long-term receivables		Bonds payable	
Long term equity investment		Long term payables	
Investment properties		Special payables	
Fixed assets	318,450.15	Estimated liabilities	
Construction in progress		Deferred income tax liabilities	
Engineering materials		Other non-current liabilities	
Disposal of fixed assets		Total non-current liabilities	0.00
Productive biological assets		Total liabilities	102,106,803.99
Oil and gas assets		Shareholders' equity:	
Intangible assets	105,148,888.57	Paid in capital (or share capital)	43,000,000.00
Development expenditures		Capital reserve	
Goodwill		Less: treasury shares	
Long term deferred expenses		Special reserve	
Deferred income tax assets		Surplus reserve	188,196.03

Assets	Book amount on Valuation Reference Date	Liabilities and shareholders' equity	Book amount on Valuation Reference Date
Other non-current assets		Undistributed profits	893,764.24
Total non-current assets	105,467,338.72	Translation difference of foreign currency statements	
		Total shareholders' equity	44,081,960.27
Total assets	146,188,764.26	Total liabilities and shareholders' equity	146,188,764.26

The entrusted valuation subject and valuation scope are consistent with those involved in economic activities. The assets and liabilities included in the valuation scope have been audited by Da Hua Certified Public Accountants (Special General Partnership) on the basis of the financial statements, and the valuation has been conducted based on the audited financial statements of the appraised entity.

(II) Overview of Book Assets with Greater Impact on the Valuation Subject

Non-current assets refer to the asset group consisting of the franchise rights owned by the appraised entity, mainly including fixed assets, intangible assets and other non-current assets. The franchise right refers to a 27-year franchise right to implement the Yeji Wastewater Treatment TOT Project (Phase I) and a 21-year franchise right to implement the Yeji Wastewater Treatment Entrusted Operation Project (Phase II) granted by the Management Committee of Yeji Development and Pilot Zone to the appraised entity. The franchise period of the Phase I Project is from 1 January 2016 to 31 December 2042, and the franchise period of the Phase II Project is from February 2022 to 31 December 2042. The book value was RMB105,467,338.72 in total.

(III) Off Balance Sheet Assets Reported by the Appraised Entity

The appraised entity has not separately reported its off balance sheet assets.

(IV) Assets Involved in the Reference to the Report Conclusions Issued by Other Institutions

All the valuation work of this project has been conducted by Allied Appraisal Co., Ltd. The valuation process does not involve in the reference of the asset value to the report conclusions issued by any other valuation institution.

IV. VALUE TYPE AND ITS DEFINITION

Analysis from the perspective of economic activities and valuation purpose: based on the consideration of economic activities, the purpose of this valuation is to provide the reference opinions of the valuation subject for the related parties to the economic activities. All parties are on an equal position, and their economic activities are normal and fair market transactions. Generally, trading at market value is acceptable to all parties to the transaction;

Analysis from the perspective of market conditions: with the continuous development of market-oriented economy, asset transactions are becoming increasingly frequent, and trading at market value has been accepted by more and more investors;

Analysis from the correlation between the value type selection and the valuation assumptions: the valuation assumptions for this valuation are set based on the simulation of a completely open and fully competitive market, that is, the purpose of setting the valuation assumptions is to exclude the impact of non-market factors and abnormal factors on the valuation results;

Analysis from the practice of value type selection: when there are no special restrictions and requirements on market conditions and the use of the valuation subject, the market value should be selected as the value type of the valuation conclusion.

Therefore, the value type selected for this valuation is market value.

The market value is defined as the estimated amount of the value for which the valuation subject should exchange on the Valuation Reference Date between a willing buyer and a willing seller in a normal and arm's length transaction, where the parties have each acted rationally without compulsion.

V. VALUATION REFERENCE DATE

1. The Valuation Reference Date for the asset valuation of this project is 31 December 2021;
2. The Valuation Reference Date is determined by the entrusting party;
3. The prices adopted in the valuation are all the standards on the Valuation Reference Date.

VI. VALUATION BASIS

The valuation basis for this assets valuation mainly includes basis of economic activities, basis of laws and regulations, basis of valuation standards and norms, basis of asset ownership, and basis of pricing used in the valuation and estimation, the details are as follows:

(I) Basis of Economic Activities

1. Minutes of the Special Meeting on the Proposed Transfer of 100% Equity of Yunnan Water Investment Co., Limited* in Lu'an Yeji Yunshui Water Investment Co., Ltd.* and Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (Issue 66) of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* and relevant approvals;
2. Resolution of the 200th Meeting of the First Session of Board of Directors of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. * (YKLDJTZ [2022] No. 11).

(II) Basis of Laws and Regulations

1. The Company Law of the People's Republic of China (Order No. 42 of the President of the People's Republic of China);
2. The Civil Code of the People's Republic of China (Adopted at the Third Session of the Thirteenth National People's Congress on 28 May 2020);
3. The Asset Appraisal Law of the People's Republic of China (Order No. 46 of the President of the People's Republic of China);
4. The Law of the People's Republic of China on the State-Owned Assets of Enterprises (Order No. 5 of the President of the People's Republic of China);
5. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (Decree No. 378 of the State Council of the People's Republic of China);
6. Interim Measures for Appraisal and Management of State-owned Assets by Enterprises (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
7. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (Decree No. 32 of SASAC and the Ministry of Finance);
8. The Circular on Strengthening Appraisal and Management of State-owned Assets by Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
9. Notice on the Relevant Matters Concerning the Audit of Valuation Reports of State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
10. Guidelines for Filing State-owned Assets Appraisal Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
11. Notice on Matters Concerning the Transfer of Transactions of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan Gui [2022] No. 39);
12. The Accounting Law of the People's Republic of China (Order No. 24 of the President of the People's Republic of China);
13. Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (Decree No. 691 of the State Council);
14. Notice from the National Development and Reform Commission, State Administration of Taxation, the Ministry of Finance, in relation to the Directory for Projects of Environmental Protection and Energy-Saving entitled to Enterprise Income Tax Preferential (Trial) Policy (Cai Shui [2009] No. 166);
15. Notice on Directory of VAT Concessions on Comprehensive Utilization of Goods and Services issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78);

16. Announcement on Relevant Policies for Deepening the Value-added Tax Reform (Announcement No. 39 of 2019 of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs);
17. Enterprise Income Tax Law of the People's Republic of China (revised at the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017);
18. Notice on the Interim Measures for the Administration of the Evaluation of State-owned Assets of Provincial Enterprises in Yunnan Province (YGZCQ [2018] No. 147);
19. Notice on the Guidelines for the Filing of State-owned Assets Evaluations of Provincial Enterprises in Yunnan Province (YGZCQ [2018] No. 149);
20. Notice on Issuance of the Interim Measures for Financial Administration of PPP Projects (Cai Jing [2016] No. 92);
21. The Securities Law of the People's Republic of China (revised at the 15th meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);
22. The General Rules for Finance Matters of Enterprises (Decree No. 41 of the Ministry of Finance).

(III) Basis of Valuation Standards

1. Basic Rules for Asset Appraisal (Cai Zi [2017] No. 43);
2. Practice Guidelines for Asset Valuation — Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
3. Practice Guidelines for Asset Valuation — Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
4. Practice Guidelines for Asset Valuation — Asset Valuation Methodology (Zhong Ping Xie [2019] No. 35);
5. Practice Guidelines for Asset Valuation — Enterprise Value (Zhong Ping Xie [2018] No. 38);
6. Practice Guidelines for Asset Valuation — Intangible Assets (Zhong Ping Xie [2017] No. 37);
7. Practice Guidelines for Asset Valuation — Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
8. Guidance on Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
9. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

10. Guiding Opinions No. 12 for Asset Valuation Expert — Measurement of Discount Rates in the Valuation of Enterprise Values by the Income Approach (Zhong Ping Xie [2020] No. 38);
11. Guiding Opinions on Legal Ownership of the Asset Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Basis of Ownership

1. Pollution Discharge Permit;
2. Motor Vehicle Driving Permit;
3. Agreement on Franchise for PPP Project of Wastewater Treatment Plant and Supporting Pipe Network Franchise Transfer in Yeji Reform and Development Pilot Area;
4. Entrusted Operation Agreement for the Wastewater Treatment Plant (Phase II) of Yeji District, Lu'an City;
5. New Operation Service Agreement on Phase I Bid Upgrading and Reconstruction of Wastewater Treatment Plant in Yeji District, Lu'an City;
6. Construction project completion acceptance report, environmental assessment acceptance and relevant approval documents;
7. Fixed assets purchase invoice, contract agreement;
8. Business contracts, agreements and invoices related to enterprise operation;
9. Detailed list of assets inspection and evaluation provided by the entrusting party and the appraised entity;
10. Other supporting information which can prove the acquisition and transfer of ownership, including financial account books, receipt and withdrawal voucher.

(V) Basis of Pricing

1. Audit reports, financial statements, predictive financial information, asset declaration statements and relevant asset purchase and construction materials provided by the entrusting party or the appraised entity;
2. The future income forecast materials provided by the entrusting party and other relevant parties according to law;
3. Manual of Asset Valuation Methods and Parameters (published by Beijing Science and Technology Press) and relevant risk coefficients data;
4. Statistical data issued by the National Bureau of Statistics, relevant national departments and industry associations;

5. The latest version of the Enterprise Performance Evaluation Standards formulated by The Statistical Evaluation Bureau of the State-owned Assets Supervision and Administration Commission of the State Council;
6. Public information of relevant listed companies;
7. Statistics of Shanghai Wind Information Co., Ltd.* (WIND Information);
8. Bond trading information published on China Bond Information Network (www.chinabond.com.cn);
9. The People's Bank of China authorizes the National Interbank Funding Center to publish the loan market quoted interest rate close to the Valuation Reference Date;
10. Technical standards issued by relevant national departments;
11. Recent market transaction price information of machinery, equipment and materials, and inquiry results on the Internet and telephone;
12. Site investigation, verification and market research materials by the valuers.

(VI) Other References

1. Accounting Standards for Business Enterprises — Basic Standards (Decree No. 33 of the Ministry of Finance);
2. Accounting Standards for Business Enterprises — Application Guide (Cai Kuai [2006] No. 18);
3. Audit Report of Lu'an Yeji Yunshui Water Investment Co., Ltd.* (Da Hua Shen Zi [2022] No. 006644) issued by Da Hua Certified Public Accountants (Special General Partnership).

VII. VALUATION METHODOLOGY

(I) Basic Methods of Enterprise Value Assets Valuation

According to the asset valuation standards, the basic methods of enterprise value asset valuation include market approach, income approach and cost approach (asset-based approach).

1. Market Approach

The market approach refers to the valuation method of determining the valuation subject by comparing the valuation subject with the comparable listed companies or comparable transaction cases. The preconditions for the application of the market approach are:

- (1) The comparable reference subjects of the valuation subject have an open market and active transactions;
- (2) The necessary information about the transaction is available.

2. *Income Approach*

The income approach refers to the method of capitalization or discounting the expected income of the enterprise to determine the valuation subject. The preconditions for the application of the income approach are:

- (1) The future income of the valuation subject can be reasonably expected and measured in currency;
- (2) The risk corresponding to the expected income can be measured;
- (3) The income period can be determined or reasonably expected.

3. *Asset-based Approach*

Asset-based approach refers to the method of reasonably valuating the value of various assets and liabilities on and off the balance sheet of the appraised entity based on the balance sheet of the appraised entity on the Valuation Reference Date, and determining the valuation subject. The preconditions for the application of the asset-based approach are:

- (1) The valuation subject can be used normally or in use;
- (2) The valuation subject can be obtained through replacement;
- (3) The replacement cost and related depreciation of the valuation subject can be reasonably estimated.

(II) **Selection of Valuation Methodology**

The type of asset value in this valuation is market value. Therefore, the goal of asset valuation is to reflect the fair market value of assets. As a means to reflect the fair market value of assets, the market approach is undoubtedly the first selection for asset valuation. Formally, the income approach does not seem to be a direct method to estimate the fair market value of assets, but it is a direct method to assess the value of assets from the perspective of the expected income of assets, which is the basic element of determining the fair market value of assets. It is in line with the value concept under the conditions of market economy. Therefore, the income approach is also a direct method to assess the value of assets. Compared with the market approach and income approach, the asset-based approach reflects the asset value from the perspective of acquisition and construction costs, and its perspective and approach to estimating the fair market value of assets are indirect.

The basic methods of valuation are to show the value of assets from different angles. Whether the value of the valuation subject is obtained by comparing with the market reference object, or by discounting the expected income of the valuation subject, or judging the value of the valuation subject according to the way of asset re-acquisition, it is a description of the value of the valuation subject under certain conditions from a certain point of view, and they are intrinsically related and can be replaced by each other.

1. Analysis on the applicability of market approach

As it is difficult to find many recent transaction cases in the enterprise property rights trading market that belong to the same industry as the appraised entity, or are affected by the same economic factors, and are comparable with the appraised entity in terms of business structure, business model, enterprise scale, asset allocation and use, business stage, growth, operational risk, financial risk and other factors, or there are very few transaction cases but lack of data and information on transactions, acquisitions and mergers with trading partners; At the same time, there is also a lack of comparable listed companies in the public stock market, so it is difficult to use the market approach to evaluate the valuation subject.

2. Analysis on the applicability of income approach

As the main business of the appraised entity is wastewater treatment, according to the franchise agreement, the future income situation is relatively clear. In combination with the human resources, technical level, capital structure, business status, historical performance and development trend of the appraised entity, and considering macroeconomic factors, the current situation and development prospects of the industry, the valuation assumptions are reasonably determined to form a future income forecast; At the same time, the income period can be determined according to the agreed operating period of the franchise; In addition, the risk corresponding to the expected income can be measured by taking into account the relevant information of the capital market such as the interest rate level and the market investment yield on the reference date, the industry of the appraised entity, its specific risks and other relevant factors. Therefore, the income approach can be used for valuation.

3. Analysis on the applicability of asset-based approach

As the asset-based approach indirectly reflects the enterprise value from the perspective of enterprise acquisition and construction costs, it is easy to ignore the comprehensive profitability of various assets, as well as the overall value contained in the enterprise's business scale, industry status and mature management model when evaluating the enterprise value. When evaluating the enterprise on the premise of continuous operation, the asset-based approach should generally not be the only valuation method used. Therefore, this valuation adopts the income approach and the asset-based approach, which take the appraised entity as an organic whole and consider the overall asset profitability.

4. Selection of valuation methods

According to the asset valuation standards, when the conditions for adopting different valuation methods are met, the asset valuation professionals should choose two or more valuation methods and form a reasonable valuation conclusion through comprehensive analysis. In combination with the above analysis, this valuation adopts the income approach and the asset-based approach.

(III) Introduction to Valuation Using Income Approach

The specific methods commonly used in income approach include dividend discount method and cash flow discount method. The dividend discount method is a specific method for discounting the expected dividend to determine the value of the valuation subject, which is usually applicable to the valuation of the value of part of the equity of shareholders lacking control. The cash flow discount method usually includes the enterprise free cash flow discount model and the equity free cash flow discount model. The cash flow discount model is properly selected according to the future business model, capital structure, asset use status and future income development trend of the enterprise. As the valuation subject is the value of all shareholders' equity of the appraised entity, it is applicable to the discounted cash flow method (DCF).

1. Basic valuation methods

According to the valuation findings, assets composition and characteristics of the principal business of the appraised entity, this valuation estimates the value of the appraised entity on the basis of the statement analysis of the appraised entity. The basic considerations are as follows:

- (1) For assets included in the statement, to classified into operating assets, surplus assets, non-operating assets and liabilities, and adjusted into corresponding statements. Surplus assets, non-operating assets and liabilities include the monetary capital required for non-routine operations existing on the reference date, current assets or liabilities such as current accounts generated from non-operating activities of enterprises, non-operating foreign investment, inactive or idle equipment and other non-current assets or liabilities;
- (2) For the assets and main businesses included in the corresponding statements of operational assets, the expected income is estimated separately according to the change trend of the operating conditions before and after the reference date and the type of business, and the value of operational assets is calculated using the income approach valuation model;
- (3) Surplus assets, non-operating assets and liabilities that are not included in the scope of the operating assets statement are not considered in the expected income estimation and the income approach valuation, and their values are separately valued using the market approach or the cost approach;
- (4) The value of all shareholders' equity of the appraised entity is obtained by adding the above operating assets, surplus assets and non-operating assets and deducting the surplus/non-operating liabilities.

2. Selection of income approach valuation model

Considering the business operation history, capital structure and financial information of the appraised entity, especially the future business model, income stability and development trend, expected changes in capital structure and asset use, we adopt the enterprise free cash flow discount model for valuation and calculation.

3. Calculation Formula of income approach

The basic calculation formula for this valuation is:

$$E = B - D$$

Wherein: E: Value of total shareholders' equity of the appraised entity;

B: Overall Enterprise value of the appraised entity;

D: Value of the interest-bearing debt of the appraised entity;

Wherein: $B = P + C$

Wherein: P: Value of operating assets of the appraised entity.

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i}$$

Wherein: R_i : Expected income of the valuation subject in the i th year of the income period;

r : Discount rate;

n : The income period of the valuation subject;

C : Value of surplus or non-operating assets (liabilities) of the appraised entity as at the reference date.

$$C = C_1 + C_2$$

Wherein: C_1 : Value of current surplus/non-operating assets (liabilities) as at the reference date;

C_2 : Value of non-current surplus/non-operating assets (liabilities) as at the reference date.

4. Selection of main parameters when applying the income approach

(1) Expected income indicator and time point of realizing income

According to the specific situation of the appraised entity, the free cash flow of the enterprise is used as the expected income indicator of the operating assets.

Enterprise free cash flow = income – cost expense – tax + depreciation and amortization + interest expense × (1 – corporate income tax rate) – capital expenditure – increase in working capital

Among them, the expected income includes the distributable but undistributed profits from the realized profits of the appraised entity on the Valuation Reference Date and the previous years, the costs and expenses for managing the equity during the period when the owner of the valuation subject holds the equity are not deducted, and the taxes and related expenses that may need to be paid inside and outside the People's Republic of China when obtaining such expected income.

The time point for realizing the expected income is determined by the average realization of the expected income in the operating year, and is set in each calendar year.

(2) *Income period of expected income*

According to the Agreement on Franchise for PPP Project of Wastewater Treatment Plant and Supporting Pipe Network Franchise Transfer in Yeji Reform and Development Pilot Area signed between the Housing and Urban Rural Development Bureau of Yeji Development Pilot Area and Yunnan Water Investment Co., Ltd., the franchise period is 27 years, from 1 January 2016 to 31 December 2042. Therefore, the prediction period for this valuation is from 31 December 2021 to 31 December 2042.

(3) *Liquidation value at the end of expected income*

According to the agreement on franchise rights, after the business term of the appraised entity expires, the whole project assets shall be transferred to the government or its designated institution free of charge. Therefore, the liquidation of assets at the end of the period is zero, so only the working capital at the end of the period is considered in this valuation for the liquidation value at the end of the expected income.

(4) *Discount rate*

As the income approach adopts the enterprise free cash flow discount model, the discount rate (r) is calculated and determined by the weighted average cost of capital (WACC) model according to the principle of unifying the expected income amount and the discount rate. Then:

$$r = r_d \times w_d + r_e \times w_e \quad (1)$$

w_d : Debt ratio of the valuation subject;

$$w_d = \frac{D}{(E + D)} \quad (2)$$

w_e : Equity ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)} \quad (3)$$

r_d : After tax debt cost of the valuation subject;

r_e : Cost of equity capital. In this valuation, the cost of equity capital (r_e) is determined by the capital asset pricing model (CAPM);

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon \quad (4)$$

Wherein: r_f : Risk-free rate of return;

r_m : Expected market rate of return;

ε : Characteristic risk adjustment factor of the valuation subject;

β_e : Expected market risk factor of the equity capital of the valuation subject;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E}) \quad (5)$$

β_u : Unlevered market risk factor of comparable companies;

$$\beta_u = \frac{\beta_t}{1 + (1 - t) \frac{D_i}{E_i}} \quad (6)$$

β_t : Expected market average risk factor of stocks of comparable companies;

$$\beta_t = 34\%K + 66\%\beta_x \quad (7)$$

Wherein: K: The average risk value of the stock market in a certain period, for which it normally assumes that K=1;

β_x : Historical market average risk factor of stocks of comparable companies;

D_i, E_i : Interest-bearing debts and equity capital of comparable companies, respectively.

5. *Determination of surplus asset value*

Surplus assets refer to the surplus assets that are not directly related to the income of the appraised entity and exceed the business needs of the appraised entity. After analysis, the appraised entity has no obvious surplus assets.

6. *Determination of value of non-operating assets*

Non-operating assets refer to the assets that have no direct relationship with the income of the appraised entity, do not generate benefits and deduct non-operating liabilities. According to the analysis, the non-operating assets of the appraised entity mainly include borrowings from related parties and interest receivable, etc.; non-operating liabilities are mainly interest and consulting fees payable by related parties. Non-operating assets and liabilities are mainly evaluated by cost approach.

(IV) Introduction to Valuation Using Asset-based Approach

The asset-based approach is adopted for enterprise value valuation, and the value of each asset shall be obtained by selecting appropriate specific valuation methods according to its specific conditions. The valuation methods of various assets and liabilities are as follows:

1. *Monetary assets*

Monetary assets include bank deposits, etc., all of which are denominated in RMB. After checking and verifying, the valuers take the amount of currency legally held by the enterprise on the reference date as the basis, and deduct the amount of possible recovery costs as the appraised value.

2. *Receivables*

After checking and verifying the valuation of accounts receivable and other receivables, the valuers, on the basis of checking and verifying the accounts receivable, with the help of historical data and current investigation, specifically analyzed the amount, time and reason of arrears, recovery of funds, funds, credit, operation and management status of debtors, and estimated the risk loss of the valuation of receivables using the method of individual identification. If there are sufficient reasons to believe that all the current accounts of related enterprises can be recovered, the risk loss is 0; If there is conclusive evidence that the amount cannot be recovered or the account age is too long, the risk loss assessed is 100%; For those who are likely to fail to recover part of the funds and it is difficult to determine the amount of uncollectible accounts, the assessment risk loss shall be estimated according to the aging analysis by reference to the method of enterprise accounting for calculating the provision for bad debt.

According to the above criteria, the assessment risk loss is determined, and the appraised value is determined by subtracting the assessed risk loss from the total value of receivable after audit adjustment. The provision for bad debt is assessed as zero according to the relevant provisions of the assessment.

3. *Prepayments*

Based on the verification of the prepayments, the valuers, with the help of historical data and current investigation, specifically analyzed the amount, time and reason of arrears, recovery of funds, funds, credit, operation and management status of the debtor, and did not find that the supplier had broken down, withdrawn or failed to provide goods on time according to the contract. The adjusted book value was taken as the appraised value.

4. *Non-current assets*

Non-current assets refer to the asset group consisting of the franchise rights owned by the appraised entity, mainly including fixed assets, intangible assets and other non-current assets. The franchise right was granted by Management Committee of Yeji Reform and Development Pilot Zone to the appraised entity to implement the 27-year franchise of Yeji Wastewater Treatment Phase I TOT Project and the 21-year franchise of Yeji Wastewater Treatment Phase II Entrusted Operation Project. Phase I of the project was from 1 January 2016 to 31 December 2024, and Phase II was from February 2022 to 31 December 2042. This valuation adopts the discounted cash flow method to evaluate the asset group formed by the franchise. The specific formula is as follows:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} - Z$$

Wherein: P: Value of franchise asset group

R_i: Estimated cash flow of franchise asset group in the *i*th year within the income period

r: Discount rate

n: Duration of estimated future cash flow of franchise asset group

Z: Opening working capital

5. *Payroll payable*

The valuers obtained the information about the enterprise's provision and payment of employee compensation, verified the relevant accounting records, and took the book value after audit adjustment as the appraised value.

6. *Taxes payable*

Taxes payable include land use tax, property tax, individual income tax, stamp tax, and local water conservancy construction fund. The valuers checked the correctness of the relevant data and the authenticity of the remittance by understanding the contents of the taxable items of the appraised entity, and took the book value after audit adjustment as the appraised value.

VIII. PROCESS AND IMPLEMENTATION OF VALUATION PROCEDURES

The main procedures of asset valuation include identifying the basic business matters, entering into business entrustment contracts, preparing asset valuation plans, conducting on-site investigation of valuation, collecting and sorting out valuation data, forming conclusions by valuating and estimating, and preparing and issuing valuation reports.

(I) Preparation Stage for Valuation

1. Identify with the entrusting party the valuation purpose, valuation subject and scope, value type, Valuation Reference Date and other basic business matters.
2. Conduct a comprehensive analysis and evaluation of their professional competence, independence and operational risks.
3. Enter into an Asset Valuation Engagement Contract with the entrusting party according to the laws.
4. Prepare an asset valuation plan based on the specific circumstances of the asset valuation engagement.

(II) Asset Verification and Data Validation Stage

1. Conduct on-site investigation on the valuation subject, understand the current situation of the valuation subject, and pay attention to the legal ownership of the valuation subject. Field investigation methods usually include inquiry, interview, check, supervision, investigation, etc. According to the principle of importance, field investigation shall be carried out by item or sampling.
2. According to the specific situation of asset valuation engagement, collect the information needed for asset valuation engagement. Including: information regarding the valuation subject and valuation scope provided by the entrusting party or other concerned parties, other information obtained from different channels, such as government departments, various professional institutions and market, and other necessary information regarding the valuation subject and valuation scope. The entrusting party or other concerned parties are required to confirm the asset valuation schedule and other important information provided by them by means including signature, seal and other means permitted by laws.

3. Verify and validate the data used in asset valuation activities. Verification methods usually include observation, inquiry, written review, field investigation, enquiry, confirmation, review, etc.
4. According to the specific situation of asset valuation engagement, analyze, summarize and sort out the collected data for valuation in order to form the basis for valuation and estimation and preparation of asset valuation report.

(III) Selection of Valuation Methodology and Results Calculation Stage

1. According to the valuation purpose, valuation subject, value type, data collection, etc., analyze the applicability of the three basic approaches of asset valuation, namely market approach, income approach and cost approach, and select the valuation methodology.
2. According to the valuation methodology adopted, the valuation assumptions are reasonably used, and the corresponding formulas and parameters are selected for analysis, calculation and judgment to form the calculation results.

(IV) Forming Valuation Conclusion and Review, Communication, Issuing Report Stage

1. Conduct a comprehensive analysis on the resulting calculation results to form a reasonable valuation conclusion.
2. After forming the valuation conclusion by valuation and estimation, prepare the preliminary asset valuation report.
3. According to laws, administrative regulations, asset valuation standards and internal quality control system of asset valuation agencies, conduct an internally review on the preliminary asset valuation report.
4. Under the premise of not affecting the independent judgment of the valuation conclusion, communicate with the entrusting party or other concerned parties who agree with the entrusting party on the relevant content of the asset valuation report, analyze the communication independently, and decide whether to adjust the asset valuation report.
5. Issue and submit formal asset valuation report.

IX. VALUATION ASSUMPTIONS

(I) Basic Assumptions

1. Transaction assumptions. It is assumed that the valuation subject is in the process of the transaction, the valuers conduct the valuation according to the simulated market conditions such as the transaction conditions of the valuation subject, and the valuation result is the estimation of which the transaction price is most likely to be reached by the valuation subject.
2. Open market assumptions. It is assumed that the assets involved in the valuation subject are traded in the open market. In such market, buyers and sellers have equal status, and both have the opportunity and time to obtain sufficient market information. The transaction behavior of buyers and sellers is carried out under voluntary, rational and non-mandatory conditions.

3. It is assumed that after the economic activities for the valuation purpose has been achieved, the assets involved in the valuation subject will continue to be used on the same site for the purposes and in the manner in which they were used as at the Valuation Reference Date.

(II) Assumptions on the Valuation Subject

1. In addition to the extent known to the valuer, it is assumed that the purchase, acquisition, improvement, construction and development of the assets involved in the valuation subject are in accordance with the relevant laws and regulations of the State.
2. In addition to the extent known to the valuer, it is assumed that none of the assets involved in the valuation subject carry rights defects, liabilities and limitations that affect their value; it is assumed that the taxes and various payables related to such assets have been paid in full.
3. In addition to the extent known to the valuer, it is assumed that there are no significant defects affecting the continued use of the property, such as land, house buildings involved in the valuation subject, that there are no hazardous substances in the relevant assets that adversely affect their value, and that the location of the assets is free of hazardous substances and other hazardous environmental conditions that adversely affect the value of such assets.
4. The valuers have conducted surveys on tangible assets such as equipment involved in the valuation subject from the external of their visible entity and have conducted due diligence to understand their internal existing problems, but due to technical constraints, no specific technical tests have been organized on the technical data, technical status, structure, attachments and other aspects of the assets concerned. In addition to the extent known to the valuer, it is assumed that the machinery and equipment, vehicles, electronic equipment and other equipment involved in the valuation subject have no material technical failures that affect their continuous use, and that their key components and materials have no potential quality defects.
5. Unless otherwise indicated in this report, it is assumed that the valuation subject will not be affected by factors such as pre-existing or future collateral, security matters and particular transaction method on its value.
6. It is assumed that the valuation subject will not encounter other force majeure factors or unforeseen factors that have a significant adverse impact on its value.
7. It is assumed that each of the assets in this valuation are based on the actual stock as at the Valuation Reference Date, and that the current market price of the assets is based on the domestic effective price as at the Valuation Reference Date.

(III) Assumptions about Enterprise Operation and Forecast

1. It is assumed that there is no significant change in the international financial and global economic environment, the national macroeconomic situation, and the political, economic and social environment of the countries and regions where the counterparties are located.
2. It is assumed that the socio-economic environment and the interest rate, exchange rate, tax base and tax rate, policy collection fees and so on are not significantly changed.

3. It is assumed that the State's existing laws and regulations and administrative policies, industrial policies, financial policies, tax policies and other policy environment is relatively stable. Unless otherwise stated, it is assumed that the appraised entity operates in full compliance with relevant laws and regulations.
4. It is assumed that the industry in which the appraised entity is operated will develop under the current known development direction and trend after the Valuation Reference Date.
5. It is assumed that the appraised entity will continue to operate in the current industry situation and market competition environment after the economic activities for the valuation purpose is achieved.
6. It is assumed that the assets of the appraised entity will be expressed differently at any point of time during the going-concern period.
7. It is assumed that the cash inflow of the appraised entity after the Valuation Reference Date is the average inflow, and the cash outflow is the average outflow.
8. It is assumed that the accounting policies to be adopted by the appraised entity in the future and those adopted in the preparation of this report are substantially consistent in material aspects.
9. It is assumed that the appraised entity fully complies with the relevant laws and regulations in the countries and regions in which it carries out legal operations.
10. It is assumed that the management team of the appraised entity is acting with due diligence and operates based on franchise-related matters.
11. It is assumed that the parties to the franchise and relevant supplementary agreements can comply with the terms of the agreement, the agreement can be proceeded smoothly and there will be no abnormal termination.
12. It is assumed that the water quality of the appraised entity after wastewater treatment in the future forecast year will meet the first level standard A of the *Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant* (GB18918-2002).
13. It is assumed that the appraised entity operates within the term of the franchise agreement and, upon expiration, the assets of the project as a whole will be transferred to the Government at no consideration.

(IV) Other Assumptions

1. According to the *Law of the People's Republic of China on Asset Appraisal* (《中華人民共和國資產評估法》), "the entrusting party shall be responsible for the authenticity, completeness and legality of the ownership certificate, financial accounting information and other materials provided by them", it is assumed that the entrusting party has acted in accordance with the laws.
2. It is assumed that the valuation scope is consistent with the valuation declaration form provided by the entrusting party and the appraised entity, not considering the impact of contingent assets and contingent liabilities that may exist beyond the assessment declaration form provided by the entrusting party and the appraised entity on the valuation conclusion.

3. It is assumed that the methods of acquisition and utilization of the production and business premises required by the valuation subject remains consistent with and have no changes on the Valuation Reference Date.

When the above valuation assumptions and valuation principles followed in the valuation change, the valuation conclusion will be affected and changed, and the valuation report will be invalid.

X. VALUATION CONCLUSION

(I) Valuation Results of Different Valuation Methodology

1. Valuation results using the income approach

Based on the judgment of the management of the appraised entity on the future development trend and business planning, the discounted cash flow method (DCF) is used for valuation. The valuation results are as follows:

the book value was Renminbi forty-four million and eighty-two thousand (RMB44,082,000);

the appraised value amounted to Renminbi eighty-seven million two hundred and ninety-five thousand nine hundred (RMB87,295,900);

representing an increase of Renminbi forty-three million two hundred and fourteen thousand (RMB43,214,000) with an appreciation rate of 98.03%.

2. Valuation results using the asset-based approach

Total assets: the book value was Renminbi one hundred forty-six million one hundred and eighty-eight thousand eight hundred (RMB146,188,800), the appraised value amounted to Renminbi one hundred eighty-eight million six hundred and forty-eight thousand five hundred (RMB188,648,500), representing an increase of Renminbi forty-two million four hundred and fifty-nine thousand seven hundred (RMB42,459,700) with an appreciation rate of 29.04%;

Total liabilities: the book value was Renminbi one hundred and two million one hundred and six thousand eight hundred (RMB102,106,800), the appraised value amounted to Renminbi one hundred and two million one hundred and six thousand eight hundred (RMB102,106,800), representing no increase or decrease of the appraised value;

Shareholders' equity: the book value was Renminbi forty-four million and eighty-two thousand (RMB44,082,000), the appraised value amounted to Renminbi eighty-six million five hundred and forty-one thousand seven hundred (RMB86,541,700), representing an increase of Renminbi forty-two million four hundred and fifty-nine thousand seven hundred (RMB42,459,700) with an appreciation rate of 96.32%.

Item		<i>Currency Unit: RMB0'000</i>			
		Book value	Appraised value	Increase/	Appreciation rate %
				decrease	
A	B	C=B-A	D=C/A×100		
Current assets	1	4,072.14	4,072.14	0.00	0.00
Non-current assets	2	10,546.74	14,792.71	4,245.97	40.26
Of which: Long-term equity investments	3	0.00	0.00	0.00	
Investment properties	4	0.00	0.00	0.00	
Fixed assets	5	31.85	0.00	-31.85	-100.00
Construction in progress	6	0.00	0.00	0.00	
Oil and gas assets	7	0.00	0.00	0.00	
Intangible assets	8	10,514.89	14,792.71	4,277.82	40.68
Of which: Land use right	9	0.00	0.00	0.00	
Other non-current assets	10	0.00	0.00	0.00	
Total assets	11	14,618.88	18,864.85	4,245.97	29.04
Current liabilities	12	10,210.68	10,210.68	0.00	0.00
Non-current liabilities	13	0.00	0.00	0.00	
Total liabilities	14	10,210.68	10,210.68	0.00	0.00
Net assets	15	4,408.20	8,654.17	4,245.97	96.32

(II) Analysis of Results under Different Valuation Methodology

Conducting valuation by using two valuation approaches, namely income approach and asset-based approach, the difference of the results amounted to RMB754,200, the difference rate is 1.71%. The valuation results of the two valuation approaches have little difference and can be verified each other.

(III) Determination of Valuation Conclusion

In view of the fact that the purpose of this valuation is to transfer equity, based on the relevant agreements currently signed by the appraised entity and the historical operating conditions, the income approach is used for valuation, and the relevant factors are more objective. Therefore, this valuation takes valuation results using the income approach as the valuation conclusion, that is, the valuation conclusion of the market value of entire shareholders' equity interests of Lu'an Yeji Yunshui Water Investment Co., Ltd.*, as at the Valuation Reference Date, being 31 December 2021, is Renminbi eighty-seven million two hundred and ninety-five thousand nine hundred (RMB87,295,900).

(IV) Validity Period of Valuation Conclusion

According to the asset valuation standards and relevant regulatory provisions, on the basis that there is no significant change in the valuation assumptions and restrictions set out in this report, generally, this valuation report can be used when the difference between the Valuation Reference Date and the date of realization of economic activities is not more than one year, that is, from 31 December 2021 to 30 December 2022.

(V) Explanation of the Valuation Conclusion

1. This valuation conclusion does not consider the impact of the expenditures such as various transaction taxes and fees that may have to be paid by the valuation subject and on the concerned assets in connection with the arrears of tax and transactions on its value, it also does not make any tax adjustment provisions for the increase of the appraised value of the assets.
2. The legal responsibility of the asset valuation agency and its asset valuation professionals is to provide professional advice on the value of assets for the valuation purposes described in this report. The asset valuation agency and its asset valuation professionals make no judgement as to the economic activities corresponding to the valuation purposes.
3. The valuation engagement relies to a large extent on the information provided by the entrusting party, the appraised entity and other related parties in regard of the valuation subject. Therefore, the valuation engagement is based on the premise that the entrusting party and the appraised entity provide true, complete and legitimate ownership certificates, financial accounting information, technical parameters and other information in accordance with the laws. The authenticity, completeness and legitimacy of the relevant information will have an impact on the valuation conclusions. The valuers have performed due diligence and conducted on-site investigations on the valuation subject, collected ownership certificates, financial accounting information and other information, and have verified, analyzed and collated them, and used them as the basis for the preparation of the valuation report, but did not rule out that unknown matters may cause changes in the valuation conclusion. The asset valuation agency and its asset valuation professionals cannot bear any legal responsibility related to the property rights of the assets involved in the valuation subject.
4. Within the validity period after the Valuation Reference Date, if the number of assets and the pricing standard change, the following principles can be followed:
 - (1) when the number of assets changes, the amount of assets should be adjusted according to the original valuation methodology;
 - (2) when the asset price standards change, and have a significant impact on the asset valuation conclusion, the entrusting party should promptly engage a qualified asset valuation agency to re-determine the appraised value;
 - (3) for the changes of the number of assets and price standards after the Valuation Reference Date, the entrusting party should fully consider the actual price of the asset and make corresponding adjustments.

XI. EXPLANATIONS TO SPECIAL MATTERS

The following matters may affect the use of the valuation conclusion. Users of the valuation report should pay special attention to impact of the following matters on the valuation conclusion:

- (I) In this asset valuation report, for all tables or textual expressions denominated in RMB ten thousand, any difference between the total amount and the sum of the individual sub-values is due to rounding off.**

(II) The major information, such as ownership certificates, is incomplete or exist deficiencies

During the valuation, the valuers found that one of the assets included in the valuation subject has the name of the obligee stated in the land use right certificate inconsistent with that of the actual user. The land use right certificate states that the obligee is Yeji Pilot Zone Urban Wastewater Treatment Co., Ltd.* (葉集試驗區城市污水處理有限責任公司), and the actual user is Lu'an Yeji Yunshui Water Investment Co., Ltd.*. At the same time, as of the Valuation Reference Date, the completed buildings included in the valuation scope have not yet obtained relevant property right certificates.

According to the introduction of the appraised entity, failure to handle the ownership change of the land use right and failure to handle the property right certificate of the buildings are mainly due to historical reasons. According to the franchise transfer agreement, “the appraised entity enjoys the right to use the transferred assets and the relevant rights and interests in the relevant documents and information and bears all risks during the franchise period.” To sum up, the land use right, the building use right and other rights and interests are actually held by the appraised entity, and the property has been used normally without any property right dispute as of the Valuation Reference Date. Due to the less handling fees required for the above registration of ownership change, the impact of the fees for registration of ownership change on the asset value has not been considered in the valuation.

(III) Matters of Guarantees, Leases and its Contingent Liabilities (Contingent Assets)

The valuers were not informed and have not discovered matters such as pledge of assets and external guarantees of the appraised entity during the on-site due diligence, and the impact of any possible pledge and guarantee liabilities of the appraised entity on the valuation conclusion has not been considered in valuation.

(IV) Uncertainties such as Outstanding Matters, Legal Disputes and Restricted Valuation Procedures

The valuers were not informed and have not discovered matters such as default liabilities, pending litigation or legal disputes of the appraised entity during the on-site due diligence, and the impact of any possible default and litigation liabilities of the appraised entity on the valuation conclusion has not been considered in valuation.

(V) Significant Work Progress by the Engagement of Experts

The assets and liabilities included in the valuation scope have been audited by Da Hua Certified Public Accountants (Special General Partnership), and the audit report number is “Da Hua Shen Zi [2022] No. 006644”. The valuation was carried out on the basis of the audited statements of the appraised entity.

(VI) Impact of Significant Subsequent Events and Economic Activities

With the outbreak of “novel coronavirus pneumonia” in early 2020, the global economic environment has been affected as the spread of “novel coronavirus pneumonia” has accelerated globally and global trade frictions have continued to expand. As of the date of the valuation report, the impact of “novel coronavirus pneumonia” has not yet been completely eliminated, and as the valuers are unable to estimate its subsequent development and corresponding national policies, the impact of changes in the global economic environment on the subsequent operations of the appraised entity has not been considered in this valuation.

Except for the above matters, the valuers have not been informed of and have not identified any significant subsequent events that have an impact on the valuation conclusion as of the date of issuance of this report.

The existence of the above special matters is brought to the attention of the users of this report.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

1. The scope of use of this report is limited to the valuation purpose and usages set out in the report.
2. If the entrusting party or other users of the asset valuation report fails to use the report in accordance with the provisions of laws and administrative regulations and the scope of use specified in this report, the asset valuation agency and its asset valuation professionals shall not bear the responsibility. The prerequisite for the validation of this valuation report is that the economic activities conform to the relevant provisions of national laws and regulations, and have been approved by the relevant departments.
3. Except for the entrusting party or other users of the asset valuation report agreed in the Asset Valuation Engagement Contract and the users of the asset valuation report stipulated by laws and administrative regulations, no other institution or individual may be the user of this report. For persons other than the users of the asset valuation report who used this report for purposes beyond the scope of use and are presented with or otherwise have access to this report, the asset valuation agency and its asset valuation professionals do not assume any obligation or responsibility, do not provide further advice as a result of this report, do not provide testimony, attend court or other legal proceedings during the hearing, and reserve the right to pursue the resulting losses to the person other than the users of the asset valuation report.
4. The users of the asset valuation report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equal to the realizable price of the valuation subject, and the valuation conclusion should not be regarded as the guarantee of the realizable price of the valuation subject.
5. The analysis and conclusion of this report are based on the valuation principles, the valuation basis, the valuation assumptions and limitations, the valuation methodology and the valuation procedures described in the report, which maintains valid only under the valuation assumptions and limitations described in this report.
6. After the date of the issuance of this report and during the validity period of this valuation report, in the event of significant subsequent events affecting the value of the valuation subject, including changes in national, local and industry laws and regulations, economic policies and significant changes in the market value of assets, etc., the valuation conclusion of this report cannot be directly used.
7. This report contains certain documents for inspection and valuation schedules. All documents for inspection and valuation schedules also form an important part of this report, but they should be used together with the main text of this report to be valid.
8. This report is based on copies of relevant asset ownership documents provided by the entrusting party or the appraised entity. The valuers have paid reasonable attention to the legal ownership of the valuation subject and conducted necessary checks on the relevant information, but do not guarantee that they have examined and reviewed the originals of all documents and materials item by item; except as specifically stated in the report, the impact of defects in the ownership of the valuation subject on their value has not been considered.

9. The statements in this report regarding the legal ownership of the valuation subject do not represent a guarantee or an assurance by the valuers of the legal ownership of the valuation subject. This report does not constitute a document certifying the ownership of the assets, nor does it assume any legal responsibility for the ownership status of the assets.
10. In accordance with laws and regulations relating to asset valuation, asset valuation report involving statutory valuation engagement shall be used by the entrusting party after fulfilling the supervision and management procedures for asset valuation in accordance with the requirements of laws and regulations.
11. The right of interpretation of the contents of this valuation report belongs to this valuation agency and no other unit or department has the right to interpret it, except for the explicit special provisions of national laws and regulations.

XIII. DATE OF ASSET VALUATION REPORT

The date of this asset valuation report is 31 October 2022.

* *For identification purposes only*

(There is no text on this page)

Allied Appraisal Co., Ltd.

Legal representative: Hu Dongquan

Asset valuer: Sun Yongfa

Asset valuer: Luo Fenghui

31 October 2022

**Extracted Explanatory Notes to the Asset Valuation Report of
LU'AN YEJI YUNSHUI WATER INVESTMENT CO., LTD.***

I. ASSUMPTIONS FOR INCOME FORECAST

1. It is assumed that there are no major changes in the international financial and global economic environment, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located.
2. It is assumed that there will be no major changes in the social and economic environment and the implemented interest rates, exchange rates, tax bases and tax rates, and policy-related charges.
3. It is assumed that the country's current relevant laws and regulations, administrative policies, industrial policies, financial policies, tax policies and other policy environments are relatively stable. Unless otherwise stated, it is assumed that the assessed entity operates in full compliance with relevant laws and regulations.
4. It is assumed that the industry in which the valuation subject operates will maintain the currently known development direction and trend after the base date.
5. It is assumed that the valuation subject will continue to operate under the current industry conditions and market competition environment after the appraisal target economic behavior is realized.
6. It is assumed that at any point in the continuous operation period of the valuation subject, the performance of its assets is different.
7. It is assumed that the cash inflow of the valuation subject after the Valuation Reference Date is the average inflow, and the cash outflow is the average outflow.
8. It is assumed that the accounting policies adopted by the valuation subject in the future are basically consistent with the accounting policies adopted at the time of preparation of the report.
9. It is assumed that the management team of the valuation subject is performing its duties and operating in accordance with franchise-related matters.
10. It is assumed that the parties to the franchise and related supplementary agreements can abide by the terms of the agreement, the agreement can be carried out smoothly, and there will be no abnormal termination midway.
11. It is assumed that in the future forecast year, the water quality after the sewage treatment of the valuation subject meets the first-class standard A of the "Pollutant Discharge Standards for Urban Wastewater Treatment Plants" (GB18918-2002).
12. It is assumed that the assessed unit operates according to the term of the franchise agreement, and transfers the entire project assets to the government free of charge after expiration.

II. EXPLANATION OF INCOME FORECAST

The main business of the appraised entity includes sewage treatment. The forecasted income mainly is, based on the historical business data of the appraised entity, the designed capability of the sewage treatment plant and the actual sewage treatment capacity, a forecast of the financial data according to the national macro policy, the macroeconomic situation of the region, the development conditions and market environment of the industry, the development plan and business plan of the enterprise, the analysis of advantages, disadvantages, opportunities and risks of the enterprise in the market competition environment and combining the enterprise's future annual financial budget. The major forecasted income is as follows:

(I) Operating Income

The income from main business of the appraised entity includes income from sewage treatment and income from contract operation. The income from sewage treatment mainly includes the income from sewage treatment for Phase I, and the operation income mainly includes the income from contract operation for Phase II. Income from other business includes interest income. Historical business operation figures are as follows:

No.	Type of income	Item	Unit	2018	2019	2020	2021
1-1	Income from sewage treatment for Phase I	Total income	RMB0'000	1,405.56	1,453.75	1,853.34	1,937.99
1-2	Income from sewage treatment for Phase I	Designed daily treatment capacity	0'000 ton/day				
1-3	Income from sewage treatment for Phase I	Basic water volume	0'000 ton/day	1.60	1.60	2.00	2.00
1-4	Income from sewage treatment for Phase I	Growth rate of basic water volume	%		—	0.25	—
1-5	Income from sewage treatment for Phase I	Actual daily sewage treatment capacity	0'000 ton/day	1.13	1.28	1.98	1.98
1-6	Income from sewage treatment for Phase I	Actual operational days	Day	365.00	365.00	365.00	365.00
1-7	Income from sewage treatment for Phase I	Actual annual sewage treatment capacity	0'000 ton	411.63	465.93	724.45	723.98
1-8	Income from sewage treatment for Phase I	Growth rate of annual sewage treatment capacity	%		0.13	0.55	-0.00
1-9	Income from sewage treatment for Phase I	Average unit price of sewage treatment	RMB/ton	3.41	3.12	2.56	2.68
1-10	Income from sewage treatment for Phase I	Growth rate of unit price of sewage treatment	%				
2-1	Income from sewage treatment for Phase II	Total income	RMB0'000				
2-2	Income from sewage treatment for Phase II	Designed daily treatment capacity	0'000 ton/day				
2-3	Income from sewage treatment for Phase II	Actual daily sewage treatment capacity	0'000 ton/day				
2-4	Income from sewage treatment for Phase II	Actual operational days	Day				
2-5	Income from sewage treatment for Phase II	Actual annual sewage treatment capacity	0'000 ton				
2-6	Income from sewage treatment for Phase II	Growth rate of annual sewage treatment capacity	%				
2-7	Income from sewage treatment for Phase II	Average unit price of sewage treatment	RMB/ton				
2-8	Income from sewage treatment for Phase II	Growth rate of unit price of sewage treatment	%				
3-1	Income from other business	Total income	RMB0'000	—	—	28.92	113.09
3-2	Income from other business	Interest income	RMB0'000	—	—	28.92	113.09
	Total income of Yeji Yunshui	Total income	RMB0'000	1,405.56	1,453.75	1,882.25	2,051.08

The calculation of the forecasted income from main business is as follows: the income from sewage treatment for Phase I = annual sewage treatment capacity × average unit price of sewage treatment; income from contract operation for Phase II = annual sewage treatment capacity × corresponding ladder-type service fee.

Forecasted annual sewage treatment capacity: the forecasted sewage treatment capacity for Phase I is based on the historical data of the enterprise and the designed capacity of the sewage treatment plant. The forecasted sewage treatment capacity for Phase II is based on the basic water volume and annual growth rate. According to the historical business operation of the appraised entity, the agreed matters of the franchise agreement and the future development trend in the region, it is expected that the sewage treatment capacity of the appraised entity will reach 40,000 ton/day in 2031.

Forecasted average unit price of sewage treatment: due to the completion of the Phase I upgrading and transformation and Phase II construction at the end of 2021, the unit price of service fee for sewage treatment for Phase I will be raised to RMB2.945/ton (tax inclusive) in 2022. In this valuation, the forecasted service fee for sewage treatment for Phase I is based on its latest price adjustment. The service fee for contract operation for Phase II is charged based on the latest ladder-type charge standard.

Income from other business mainly includes interest income. The borrowings from related parties have been treated as non-operating assets in this valuation, so there is no forecasted interest income from related parties. The specific measurement is as follows:

No.	Type of income	Item	Unit	2022	2023	2024	2025	2026	2027	2028
1-1	Income from sewage treatment for Phase I	Total income	RMB0'000	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16
1-2	Income from sewage treatment for Phase I	Designed daily treatment capacity	0'000 ton/day							
1-3	Income from sewage treatment for Phase I	Basic water volume	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-4	Income from sewage treatment for Phase I	Growth rate of basic water volume	%	—	—	—	—	—	—	—
1-5	Income from sewage treatment for Phase I	Actual daily sewage treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-6	Income from sewage treatment for Phase I	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00
1-7	Income from sewage treatment for Phase I	Actual annual sewage treatment capacity	0'000 ton	730.00	730.00	730.00	730.00	730.00	730.00	730.00
1-8	Income from sewage treatment for Phase I	Growth rate of annual sewage treatment capacity	%	0.01	—	—	—	—	—	—
1-9	Income from sewage treatment for Phase I	Average unit price of sewage treatment	RMB/ton	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783
1-10	Income from sewage treatment for Phase I	Growth rate of unit price of sewage treatment	%			—				
2-1	Income from sewage treatment for Phase II	Total income	RMB0'000	195.95	208.32	291.65	294.4	359.82	367.07	423.55
2-2	Income from sewage treatment for Phase II	Designed daily treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2-3	Income from sewage treatment for Phase II	Actual daily sewage treatment capacity	0'000 ton/day	0.40	0.50	0.70	0.90	1.10	1.30	1.50
2-4	Income from sewage treatment for Phase II	Actual operational days	Day	335.00	365.00	365.00	365.00	365.00	365.00	365.00
2-5	Income from sewage treatment for Phase II	Actual annual sewage treatment capacity	0'000 ton	134.00	182.50	255.50	328.50	401.50	474.50	547.50
2-6	Income from sewage treatment for Phase II	Growth rate of annual sewage treatment capacity	%		0.36	0.40	0.29	0.22	0.18	0.15
2-7	Income from sewage treatment for Phase II	Average unit price of sewage treatment	RMB/ton	1.4623	1.1415	1.1415	0.8962	0.8962	0.7736	0.7736
2-8	Income from sewage treatment for Phase II	Growth rate of unit price of sewage treatment	%							
3-1	Income from other business	Total income	RMB0'000	—	—	—	—	—	—	—
3-2	Income from other business	Interest income	RMB0'000	—	—	—	—	—	—	—
	Total income of Yeji Yunshui	Total income	RMB0'000	2,224.11	2,236.48	2,319.81	2,322.56	2,387.98	2,395.23	2,451.71

No.	Type of income	Item	Unit	2029	2030	2031	2032	2033	2034	2035
1-1	Income from sewage treatment for Phase I	Total income	RMB0'000	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16
1-2	Income from sewage treatment for Phase I	Designed daily treatment capacity	0'000 ton/day							
1-3	Income from sewage treatment for Phase I	Basic water volume	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-4	Income from sewage treatment for Phase I	Growth rate of basic water volume	%	—	—	—	—	—	—	—
1-5	Income from sewage treatment for Phase I	Actual daily sewage treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-6	Income from sewage treatment for Phase I	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00
1-7	Income from sewage treatment for Phase I	Actual annual sewage treatment capacity	0'000 ton	730.00	730.00	730.00	730.00	730.00	730.00	730.00
1-8	Income from sewage treatment for Phase I	Growth rate of annual sewage treatment capacity	%	—	—	—	—	—	—	—
1-9	Income from sewage treatment for Phase I	Average unit price of sewage treatment	RMB/ton	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783
1-10	Income from sewage treatment for Phase I	Growth rate of unit price of sewage treatment	%							
2-1	Income from sewage treatment for Phase II	Total income	RMB0'000	444.90	497.24	495.82	495.82	495.82	495.82	495.82
2-2	Income from sewage treatment for Phase II	Designed daily treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2-3	Income from sewage treatment for Phase II	Actual daily sewage treatment capacity	0'000 ton/day	1.70	1.90	2.00	2.00	2.00	2.00	2.00
2-4	Income from sewage treatment for Phase II	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00
2-5	Income from sewage treatment for Phase II	Actual annual sewage treatment capacity	0'000 ton	620.50	693.50	730.00	730.00	730.00	730.00	730.00
2-6	Income from sewage treatment for Phase II	Growth rate of annual sewage treatment capacity	%	0.13	0.12	0.05	—	—	—	—
2-7	Income from sewage treatment for Phase II	Average unit price of sewage treatment	RMB/ton	0.717	0.717	0.6792	0.6792	0.6792	0.6792	0.6792
2-8	Income from sewage treatment for Phase II	Growth rate of unit price of sewage treatment	%							
3-1	Income from other business	Total income	RMB0'000	—	—	—	—	—	—	—
3-2	Income from other business	Interest income	RMB0'000	—	—	—	—	—	—	—
	Total income of Yeji Yunshui	Total income	RMB0'000	2,473.06	2,525.40	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98

No.	Type of income	Item	Unit	2036	2037	2038	2039	2040	2041	2042
1-1	Income from sewage treatment for Phase I	Total income	RMB0'000	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16	2,028.16
1-2	Income from sewage treatment for Phase I	Designed daily treatment capacity	0'000 ton/day							
1-3	Income from sewage treatment for Phase I	Basic water volume	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-4	Income from sewage treatment for Phase I	Growth rate of basic water volume	%	—	—	—	—	—	—	—
1-5	Income from sewage treatment for Phase I	Actual daily sewage treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-6	Income from sewage treatment for Phase I	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00
1-7	Income from sewage treatment for Phase I	Actual annual sewage treatment capacity	0'000 ton	730.00	730.00	730.00	730.00	730.00	730.00	730.00
1-8	Income from sewage treatment for Phase I	Growth rate of annual sewage treatment capacity	%	—	—	—	—	—	—	—
1-9	Income from sewage treatment for Phase I	Average unit price of sewage treatment	RMB/ton	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783	2.7783
1-10	Income from sewage treatment for Phase I	Growth rate of unit price of sewage treatment	%							
2-1	Income from sewage treatment for Phase II	Total income	RMB0'000	495.82	495.82	495.82	495.82	495.82	495.82	495.82
2-2	Income from sewage treatment for Phase II	Designed daily treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2-3	Income from sewage treatment for Phase II	Actual daily sewage treatment capacity	0'000 ton/day	2.00	2.00	2.00	2.00	2.00	2.00	2.00
2-4	Income from sewage treatment for Phase II	Actual operational days	Day	365.00	365.00	365.00	365.00	365.00	365.00	365.00
2-5	Income from sewage treatment for Phase II	Actual annual sewage treatment capacity	0'000 ton	730.00	730.00	730.00	730.00	730.00	730.00	730.00
2-6	Income from sewage treatment for Phase II	Growth rate of annual sewage treatment capacity	%	—	—	—	—	—	—	—
2-7	Income from sewage treatment for Phase II	Average unit price of sewage treatment	RMB/ton	0.6792	0.6792	0.6792	0.6792	0.6792	0.6792	0.6792
2-8	Income from sewage treatment for Phase II	Growth rate of unit price of sewage treatment	%							
3-1	Income from other business	Total income	RMB0'000	—	—	—	—	—	—	—
3-2	Income from other business	Interest income	RMB0'000	—	—	—	—	—	—	—
	Total income of Yeji Yunshui	Total income	RMB0'000	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98

(2) Operating Costs

The operating costs of the appraised entity mainly include direct materials, fuel and power, direct labor and manufacturing costs. Among them, the direct materials mainly include chemical materials needed for the sewage treatment process. The fuel and power mainly include the electricity generated during the operation of the sewage treatment plant. Direct labor includes the salary, welfare expenses and social insurance of the production personnel. The manufacturing costs mainly include the amortization of the franchise rights in the factory area, repair expenses, and equipment renewal and transformation costs. Details of the costs of the appraised entity for historical years are as follows:

Year	<i>Currency Unit: RMB0'000</i>			
	2018	2019	2020	2021
Direct materials	29.86	29.86	39.72	63.29
Fuel and power	70.06	70.06	49.75	74.13
Direct labor	50.44	54.06	53.82	72.68
Manufacturing costs	—	—	—	—
Employee education expenses for production personnel	—	—	—	0.88
Utilities	0.65	0.50	0.31	0.27
Labor insurance premiums	1.80	—	0.03	0.08
Depreciation expenses	0.12	1.48	4.91	7.19
Amortization of low-cost consumables	0.73	1.66	0.13	1.60
Machinery material consumption	0.12	0.87	3.10	0.68
Freight and other charges	0.10	—	—	0.52
Inspection and testing costs	2.64	2.16	2.87	0.16
Reagent fee	—	0.77	0.85	2.22
Amortization of franchise right	518.52	580.85	580.85	580.85
Maintenance fee for online testing	4.25	9.12	11.94	12.63
Equipment renewal and transformation	8.73	6.31	5.85	1.03
Landscaping expenses	0.10	1.05	1.08	1.08
Sewage sludge disposal costs	14.91	9.38	9.33	9.01
Repair expenses	6.60	17.27	18.58	22.21
Safe production expenses	10.85	0.87	1.20	2.53
Others	2.60	6.27	0.86	—
Total	723.10	792.54	785.16	853.04

In this valuation, the calculation of forecasted direct materials and power is mainly based on consumption volume × unit price. Among them, the forecasted consumption volume is mainly based on combining the annual sewage treatment capacity of the appraised entity and the historical water consumption per tonne of the enterprise. The forecasted unit price is mainly based on referring to the average market unit price as at the Valuation Reference Date. The forecasted direct labor is based on the number of production personnel of the enterprise combining with the average salary. Details of depreciation and amortization are set out in the forecasted costs of “Forecast of Depreciation and Amortization” as follows:

Year	<i>Currency Unit: RMB0'000</i>						
	2022	2023	2024	2025	2026	2027	2028
Direct materials	80.85	86.24	94.05	101.99	110.08	118.39	126.88
Fuel and power	125.28	132.32	142.90	153.49	164.07	174.66	185.24
Direct labor	110.00	112.53	115.12	117.77	120.47	123.25	126.08
Manufacturing costs	—	—	—	—	—	—	—
Employee education expenses for production personnel	1.33	1.36	1.39	1.43	1.46	1.49	1.53
Utilities	0.88	0.88	0.88	0.88	0.88	0.88	0.88
Labor insurance premiums	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Depreciation expenses	3.72	6.10	6.07	5.76	13.36	20.96	20.88
Amortization of low-cost consumables	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Machinery material consumption	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Freight and other charges	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Inspection and testing costs	2.63	2.71	2.79	2.87	2.96	3.05	3.14
Reagent fee	4.45	4.45	4.45	4.45	4.45	4.45	4.45
Amortization of franchise right	518.13	518.13	518.13	518.13	518.13	518.13	518.13
Maintenance fee for online testing	26.02	26.80	27.60	28.43	29.28	30.16	31.06
Equipment renewal and transformation	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Landscaping expenses	1.08	1.08	1.08	1.08	1.08	1.08	1.08
Sewage sludge disposal costs	17.28	18.25	19.71	21.17	22.63	24.09	25.55
Repair expenses	20.00	30.00	35.00	35.00	35.00	35.00	35.00
Safe production expenses	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Others	—	—	—	—	—	—	—
Total	928.65	957.84	986.16	1,009.44	1,040.84	1,072.58	1,096.89

Year	2029	2030	2031	2032	2033	2034	2035
Direct materials	135.51	144.28	149.47	151.01	152.55	154.08	155.63
Fuel and power	195.83	206.41	211.70	211.70	211.70	211.70	211.70
Direct labor	128.98	131.95	134.98	138.09	141.26	144.51	147.83
Manufacturing costs	—	—	—	—	—	—	—
Employee education expenses for production personnel	1.56	1.60	1.63	1.67	1.71	1.75	1.79
Utilities	0.88	0.88	0.88	0.88	0.88	0.88	0.88
Labor insurance premiums	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Depreciation expenses	20.69	20.54	27.83	32.78	30.40	30.40	30.40
Amortization of low-cost consumables	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Machinery material consumption	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Freight and other charges	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Inspection and testing costs	3.23	3.33	3.43	3.53	3.64	3.75	3.86
Reagent fee	4.45	4.45	4.45	4.45	4.45	4.45	4.45
Amortization of franchise right	518.13	518.13	518.13	518.13	518.13	518.13	518.13
Maintenance fee for online testing	31.99	32.95	33.94	34.96	36.01	37.09	38.20
Equipment renewal and transformation	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Landscaping expenses	1.08	1.08	1.08	1.08	1.08	1.08	1.08
Sewage sludge disposal costs	27.01	28.47	29.20	29.20	29.20	29.20	29.20
Repair expenses	35.00	35.00	35.00	35.00	35.00	35.00	35.00
Safe production expenses	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Others	—	—	—	—	—	—	—
Total	1,121.33	1,146.07	1,168.71	1,179.47	1,183.00	1,189.01	1,195.14
Year	2036	2037	2038	2039	2040	2041	2042
Direct materials	157.17	158.70	160.23	161.78	163.33	164.90	166.62
Fuel and power	211.70	211.70	211.70	211.70	211.70	211.70	211.70
Direct labor	151.23	154.71	158.27	161.91	165.64	169.45	173.34
Manufacturing costs	—	—	—	—	—	—	—
Employee education expenses for production personnel	1.83	1.87	1.92	1.96	2.01	2.05	2.10
Utilities	0.88	0.88	0.88	0.88	0.88	0.88	0.88
Labor insurance premiums	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Depreciation expenses	30.40	30.40	30.40	30.40	30.40	22.80	22.80
Amortization of low-cost consumables	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Machinery material consumption	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Freight and other charges	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Inspection and testing costs	3.98	4.10	4.22	4.35	4.48	4.61	4.75
Reagent fee	4.45	4.45	4.45	4.45	4.45	4.45	4.45
Amortization of franchise right	518.13	518.13	518.13	518.13	518.13	518.13	152.19
Maintenance fee for online testing	39.35	40.53	41.75	43.00	44.29	45.62	46.99
Equipment renewal and transformation	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Landscaping expenses	1.08	1.08	1.08	1.08	1.08	1.08	1.08
Sewage sludge disposal costs	29.20	29.20	29.20	29.20	29.20	29.20	29.20
Repair expenses	35.00	35.00	35.00	35.00	35.00	35.00	35.00
Safe production expenses	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Others	—	—	—	—	—	—	—
Total	1,201.39	1,207.74	1,214.22	1,220.83	1,227.58	1,226.86	868.09

(III) Taxes and Surcharges

The taxes and surcharges of appraised entity mainly comprise urban construction tax, education surcharge, local education surcharge, local water conservancy construction fund, property tax, land use tax, vehicle and vessel use tax, stamp tax, etc.

The urban construction tax, education surcharge and local education fee of the appraised entity shall be paid according to 7%, 3% and 2% of the current payable turnover tax, the stamp tax shall be paid according to 0.05% of the business income, the property tax shall be paid according to 1.2% of the remaining value after deducting 30% from the original value of the property at one time, and the land use tax shall be paid according to the land area.

For the forecast results of taxes and surcharges in the future, please refer to the table below:

Currency Unit: RMB0'000

No.	Tax category	Tax rates (tax amounts)	Forecast year						
			2022	2023	2024	2025	2026	2027	2028
1	Urban construction and maintenance tax	0.07	6.22	7.00	7.16	6.99	5.63	6.93	6.98
2	Education surcharge	0.03	2.67	3.00	3.07	2.99	2.41	2.97	2.99
3	Local education surcharge	0.02	1.78	2.00	2.04	2.00	1.61	1.98	1.99
4	Local water conservancy construction fund		1.25	1.25	1.25	1.25	1.25	1.25	1.25
5	Property tax		2.04	2.04	2.04	2.04	2.04	2.04	2.04
6	Land use tax		14.44	14.44	14.44	14.44	14.44	14.44	14.44
7	Stamp tax	0%	0.50	1.11	1.12	1.16	1.16	1.19	1.20
Total business tax and surcharges			28.89	30.85	31.12	30.87	28.54	30.80	30.90

No.	Tax category	Tax rates (tax amounts)	Forecast year						
			2029	2030	2031	2032	2033	2034	2035
1	Urban construction and maintenance tax	0.07	6.89	6.92	5.35	6.79	6.77	6.75	6.73
2	Education surcharge	0.03	2.95	2.96	2.29	2.91	2.90	2.89	2.88
3	Local education surcharge	0.02	1.97	1.98	1.53	1.94	1.93	1.93	1.92
4	Local water conservancy construction fund		1.25	1.25	1.25	1.25	1.25	1.25	1.25
5	Property tax		2.04	2.04	2.04	2.04	2.04	2.04	2.04
6	Land use tax		14.44	14.44	14.44	14.44	14.44	14.44	14.44
7	Stamp tax	0%	1.23	1.24	1.26	1.26	1.26	1.26	1.26
Total business tax and surcharges			30.77	30.83	28.17	30.63	30.60	30.56	30.53

No.	Tax category	Tax rates (tax amounts)	Forecast year						
			2036	2037	2038	2039	2040	2041	2042
1	Urban construction and maintenance tax	0.07	5.25	6.69	6.67	6.65	6.63	6.61	5.13
2	Education surcharge	0.03	2.25	2.87	2.86	2.85	2.84	2.83	2.20
3	Local education surcharge	0.02	1.50	1.91	1.91	1.90	1.89	1.89	1.46
4	Local water conservancy construction fund		1.25	1.25	1.25	1.25	1.25	1.25	1.25
5	Property tax		2.04	2.04	2.04	2.04	2.04	2.04	2.04
6	Land use tax		14.44	14.44	14.44	14.44	14.44	14.44	14.44
7	Stamp tax	0%	1.26	1.26	1.26	1.26	1.26	1.26	1.26
Total business tax and surcharges			28.00	30.46	30.42	30.39	30.35	30.32	27.78

(IV) Administration Expenses

Administrative expenses mainly comprise salary, depreciation expense, office expense and other expenses. The salary is predicted based on the number of sales personnel and the average salary. For depreciation and amortization, see “Forecast of Depreciation and Amortization” below. As for the consulting expenses in the administrative expenses, this part of the amount is the current account between the Company and its related parties, and is not necessary for the operation. Therefore, no prediction is made in this valuation.

For the forecast results of management expenses, please refer to the table below:

No.	Item	Forecast year						
		2022	2023	2024	2025	2026	2027	2028
<i>Currency Unit: RMB0'000</i>								
1	Salary	50.00	51.15	52.33	53.53	54.76	56.02	57.31
2	Welfare expense	0.25	0.26	0.26	0.27	0.27	0.28	0.29
3	Labour union funds	1.93	1.98	2.02	2.07	2.12	2.17	2.22
4	Staff education fund	0.62	0.63	0.65	0.66	0.68	0.69	0.71
5	Housing provident fund	4.03	4.12	4.22	4.31	4.41	4.52	4.62
6	Social insurance	9.13	9.34	9.56	9.78	10.00	10.23	10.47
7	Depreciation expense	6.42	6.35	4.63	2.22	0.34	0.00	0.00
8	Business entertainment expense	6.00	6.18	6.37	6.56	6.76	6.96	7.17
9	Office expense	3.25	3.35	3.45	3.55	3.66	3.77	3.88
10	Postage	0.08	0.08	0.08	0.08	0.08	0.08	0.08
11	Water expense	0.02	0.02	0.02	0.02	0.02	0.02	0.02
12	Vehicle expense	1.50	1.50	1.50	1.50	1.50	1.50	1.50
13	Lease and property management expense	4.08	4.20	4.33	4.46	4.59	4.73	4.87
14	Travel expense	2.16	2.22	2.29	2.36	2.43	2.50	2.58
15	Operation and maintenance expense of information system	0.10	0.10	0.10	0.10	0.10	0.10	0.10
16	Advertising and business promotion expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00
17	Network service expense	0.50	0.50	0.50	0.50	0.50	0.50	0.50
18	Consulting expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	91.08	92.98	93.31	92.98	93.23	95.07	97.31

No.	Item	2029	2030	Forecast year				
				2031	2032	2033	2034	2035
1	Salary	58.63	59.98	61.36	62.77	64.21	65.69	67.20
2	Welfare expense	0.29	0.30	0.31	0.31	0.32	0.33	0.34
3	Labour union funds	2.27	2.32	2.37	2.43	2.48	2.54	2.60
4	Staff education fund	0.73	0.74	0.76	0.78	0.80	0.81	0.83
5	Housing provident fund	4.73	4.83	4.95	5.06	5.18	5.30	5.42
6	Social insurance	10.71	10.96	11.21	11.47	11.73	12.00	12.28
7	Depreciation expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Business entertainment expense	7.39	7.61	7.84	8.08	8.32	8.57	8.83
9	Office expense	4.00	4.12	4.24	4.37	4.50	4.64	4.78
10	Postage	0.08	0.08	0.08	0.08	0.08	0.08	0.08
11	Water expense	0.02	0.02	0.02	0.02	0.02	0.02	0.02
12	Vehicle expense	1.50	1.50	1.50	1.50	1.50	1.50	1.50
13	Lease and property management expense	5.02	5.17	5.33	5.49	5.65	5.82	5.99
14	Travel expense	2.66	2.74	2.82	2.90	2.99	3.08	3.17
15	Operation and maintenance expense of information system	0.10	0.10	0.10	0.10	0.10	0.10	0.10
16	Advertising and business promotion expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00
17	Network service expense	0.50	0.50	0.50	0.50	0.50	0.50	0.50
18	Consulting expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	99.62	101.98	104.39	106.86	109.38	111.98	114.63

No.	Item	2036	2037	Forecast year				
				2038	2039	2040	2041	2042
1	Salary	68.74	70.32	71.94	73.60	75.29	77.02	78.79
2	Welfare expense	0.34	0.35	0.36	0.37	0.38	0.39	0.39
3	Labour union funds	2.66	2.72	2.78	2.84	2.91	2.98	3.05
4	Staff education fund	0.85	0.87	0.89	0.91	0.93	0.95	0.98
5	Housing provident fund	5.54	5.67	5.80	5.93	6.07	6.21	6.35
6	Social insurance	12.56	12.85	13.14	13.44	13.75	14.07	14.39
7	Depreciation expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Business entertainment expense	9.09	9.36	9.64	9.93	10.23	10.54	10.86
9	Office expense	4.92	5.07	5.22	5.38	5.54	5.71	5.88
10	Postage	0.08	0.08	0.08	0.08	0.08	0.08	0.08
11	Water expense	0.02	0.02	0.02	0.02	0.02	0.02	0.02
12	Vehicle expense	1.50	1.50	1.50	1.50	1.50	1.50	1.50
13	Lease and property management expense	6.17	6.36	6.55	6.75	6.95	7.16	7.37
14	Travel expense	3.27	3.37	3.47	3.57	3.68	3.79	3.90
15	Operation and maintenance expense of information system	0.10	0.10	0.10	0.10	0.10	0.10	0.10
16	Advertising and business promotion expense	1.00	1.00	1.00	1.00	1.00	1.00	1.00
17	Network service expense	0.50	0.50	0.50	0.50	0.50	0.50	0.50
18	Consulting expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	117.34	120.14	122.99	125.93	128.93	132.02	135.16

(V) Financial Expenses

According to the understanding with the appraised entity and the capital plan of the appraised entity, the loan contract on the Valuation Reference Date, the future annual loan and repayment plan of the appraised entity is as follows:

		<i>Currency Unit: RMB0'000</i>						
		2022	2023	2024	2025	2026	2027	2028
1	Short-term borrowings							
	Opening loan principal	7,730.43	—	—	—	—	—	—
	New borrowings in the current period	—	—	—	—	—	—	—
	Repayment of loan in the current period	7,730.43	—	—	—	—	—	—
	Net increase in current debt	-7,730.43	—	—	—	—	—	—
	Loan principal at end of period	—	—	—	—	—	—	—
	Current borrowing rate	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%
	Current interest	179.73	—	—	—	—	—	—
2	New borrowings							
	Opening loan principal	—	6,473.00	5,174.00	3,869.00	2,539.00	1,303.00	—
	New borrowings in the current period	6,473.00	5,174.00	3,869.00	2,539.00	1,303.00	—	—
	Repayment of loan in the current period	—	6,473.00	5,174.00	3,869.00	2,539.00	1,303.00	—
	Net increase in current debt	6,473.00	-1,299.00	-1,305.00	-1,330.00	-1,236.00	-1,303.00	—
	Loan principal at end of period	6,473.00	5,174.00	3,869.00	2,539.00	1,303.00	—	—
	Current borrowing rate	5.88%	5.88%	5.88%	5.88%	5.88%	5.88%	5.88%
	Interest expense	190.31	342.42	265.86	188.40	112.95	38.31	—

According to the borrowing rate on the Valuation Reference Date, the financial expenses of the appraised entity are predicted as follows:

		<i>Currency Unit: RMB0'000</i>						
No.	Item	2022	2023	Forecast year		2026	2027	2028
				2024	2025			
1	Interest expense	370.04	342.42	265.86	188.40	112.95	38.31	0.00
	Total	370.04	342.42	265.86	188.40	112.95	38.31	0.00
No.	Item	2029	2030	Forecast year		2033	2034	2035
				2031	2032			
1	Interest expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
No.	Item	2036	2037	Forecast year		2040	2041	2042
				2038	2039			
1	Interest expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(VI) Other Income

Other income mainly refers to the immediate collection and refund of value-added tax of wastewater treatment plant. According to the Notice on Directory of VAT Concessions on Comprehensive Utilization of Goods and Services issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78) (財政部、國家稅務總局關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知(財稅[2015]78號)), since 1 July 2015, taxpayers who sell self-produced products for comprehensive utilisation of resources and provide labour services for comprehensive utilisation of resources (hereinafter referred to as sales of products and labour services for comprehensive utilisation of resources) can enjoy the policy of immediate collection and refund of value-added tax, of which the tax rebate rate for wastewater treatment labour services is 70%. In this valuation, the value-added tax is calculated by combining the output tax and input tax of the appraised entity, and the wastewater treatment value-added tax is collected and refunded according to the rebate rate of 70%. The specific forecast is as follows:

Currency Unit: RMB0'000

No.	Name of investee	2022	2023	Forecast year		2026	2027	2028
				2024	2025			
1	The immediate collection and refund of value-added tax of wastewater treatment	62.19	70.04	71.55	69.87	56.26	69.29	69.82
	Total	62.19	70.04	71.55	69.87	56.26	69.29	69.82

No.	Name of investee	2029	2030	Forecast year		2033	2034	2035
				2031	2032			
1	The immediate collection and refund of value-added tax of wastewater treatment	68.86	69.18	53.53	67.89	67.70	67.50	67.30
	Total	68.86	69.18	53.53	67.89	67.70	67.50	67.30

No.	Name of investee	2036	2037	Forecast year		2040	2041	2042
				2038	2039			
1	The immediate collection and refund of value-added tax of wastewater treatment	52.54	66.90	66.69	66.48	66.27	66.06	51.27
	Total	52.54	66.90	66.69	66.48	66.27	66.06	51.27

(VII) Forecast of Income Tax

According to provisions of the Notice of State Development and Reform Commission of Ministry of Finance on the Promulgation of the Catalog of Enterprise Income Tax on Environmental Protection and Energy Saving and Water Saving Projects (Trial Implementation) (Cai Shui [2009] No. 166) (《關於公佈環境保護節能節水項目企業所得稅優惠目錄(試行)的通知》(財稅[2009]166號)), the income of enterprises engaged in qualified environmental protection, energy conservation and water conservation projects shall be exempted from the enterprise income tax from the first year to the third year, and the enterprise income tax shall be reduced by half from the fourth year to the sixth year, starting from the tax year of the first production and operation income of the project. The income tax forecast is as follows:

Currency Unit: RMB0'000

No.	Income/expense	2022	2023	Forecast year		2026	2027	2028
				2024	2025			
1	Current income tax calculated according to tax law and relevant regulations	108.46	110.30	253.73	267.69	292.17	306.94	324.11
	Total	108.46	110.30	253.73	267.69	292.17	306.94	324.11

No.	Income/expense	2029	2030	Forecast year		2033	2034	2035
				2031	2032			
1	Current income tax calculated according to tax law and relevant regulations	322.55	328.93	319.06	318.73	317.17	314.98	312.74
	Total	322.55	328.93	319.06	318.73	317.17	314.98	312.74

No.	Income/expense	2036	2037	Forecast year		2040	2041	2042
				2038	2039			
1	Current income tax calculated according to tax law and relevant regulations	307.45	308.13	305.76	303.33	300.85	300.21	386.05
	Total	307.45	308.13	305.76	303.33	300.85	300.21	386.05

(VIII) Forecast of Depreciation and Amortization

The fixed assets of the appraised entity mainly include vehicles and electronic equipment. Fixed assets are valued at the actual cost at the time of acquisition. The current valuation is based on the fixed assets depreciation policy implemented by the appraised entity, taking into account the factors such as the audited book value, depreciation life, residual value rate, accrued depreciation amount and weighted depreciation rate of the fixed assets on the Valuation Reference Date, as well as the increased depreciation of the fixed assets purchased by the appraised entity due to the new fixed assets investment in the future years, and forecasts the depreciation amount in the future operation period.

The amortization of the appraised entity is mainly intangible assets. Among them, the intangible assets are mainly the franchise rights of the appraised entity. This valuation is based on the original book value, amortization period and accrued amortization amount of the audited intangible assets on the Valuation Reference Date, and takes into account the amortization expenses of the appraised entity in the future years due to the new intangible assets.

The forecast table of depreciation and amortization is as follows:

		<i>Currency Unit: RMB0'000</i>						
No.	Item	2022	2023	2024	2025	2026	2027	2028
1	Depreciation	10.14	12.44	10.69	7.98	13.70	20.96	20.88
2	Amortization	518.13	518.13	518.13	518.13	518.13	518.13	518.13
	Total	528.28	530.58	528.83	526.12	531.84	539.09	539.01
No.	Item	2029	2030	2031	2032	2033	2034	2035
1	Depreciation	20.69	20.54	27.83	32.78	30.40	30.40	30.40
2	Amortization	518.13	518.13	518.13	518.13	518.13	518.13	518.13
	Total	538.82	538.68	545.96	550.91	548.53	548.53	548.53
No.	Item	2036	2037	2038	2039	2040	2041	2042
1	Depreciation	30.40	30.40	30.40	30.40	30.40	22.80	22.80
2	Amortization	518.13	518.13	518.13	518.13	518.13	518.13	152.19
	Total	548.53	548.53	548.53	548.53	548.53	540.93	174.99

(IX) Forecast of Capital Expenditure

Capital expenditure refers to the long-term capital investment that the appraised entity needs to increase for more than one year without changing the current business conditions, including the amount of capital investment that needs to be increased due to the expansion of business scale in the future years (purchase of fixed assets or other non-current assets). As the appraised entity is a wastewater treatment plant, in combination with the actual use of the assets of the appraised entity and the compliance of the relevant industries, and in accordance with the provisions of the franchise right, the Company needs to carry out restorative maintenance of the overall assets before the expiration of the operation period. This valuation is based on the five-year major technical renovation and maintenance, and the amount of each technical renovation and maintenance is RMB2 million. The details are as follows:

Currency Unit: RMB0'000

Capital expenditure No. (excluding tax)	Forecast year						
	2022	2023	2024	2025	2026	2027	2028
1 Buildings							
1 Machinery equipment	—	—	—	—	160.00	—	—
3 Transport vehicle							
4 Electronic equipment							
2 Plant repair	50.00						
Total	50.00	—	—	—	160.00	—	—

Capital expenditure No. (excluding tax)	Forecast year						
	2029	2030	2031	2032	2033	2034	2035
1 Buildings							
1 Machinery equipment	—	—	160.00	—	—	—	—
3 Transport vehicle							
4 Electronic equipment							
2 Plant repair							
Total	—	—	160.00	—	—	—	—

Capital expenditure No. (excluding tax)	Forecast year						
	2036	2037	2038	2039	2040	2041	2042
1 Buildings							
1 Machinery equipment	160.00	—	—	—	—	—	160.00
3 Transport vehicle							
4 Electronic equipment							
2 Plant repair							
Total	160.00	—	—	—	—	—	160.00

(X) Forecast of Increase in Working Capital**1. Forecast of minimum cash holdings**

To maintain normal operation, enterprises usually need a certain amount of cash holdings. Based on the analysis of the cash turnover rate and cash-out cost of the working capital of the appraised entity in each period of its historical operation, the cash holding amount in the working capital of the appraised entity is about one month's cash-out cost.

2. Increase in working capital

The increase in working capital refers to the newly added working capital required by the enterprise to maintain the continuous operation ability of the enterprise without changing its current principal business, such as cash, inventory, receivables and other basic funds and payables required for normal operation. The addition of working capital refers to the cash used to obtain the commercial credit of others with the change of operating activities of the enterprise. At the same time, in economic activities, providing commercial credit can also reduce the immediate payment of cash. The accounting contents of other accounts receivable and other accounts payable are mostly irrelevant to the principal business or temporary transactions, which need to be determined by specific screening of their relevance and differences with the principal business of the appraised entity. Therefore, in principle, only the main factors such as cash, receivables, inventory and payables that need to be maintained for normal operation need to be considered when evaluating the increase in working capital. The increase in working capital defined in this report is:

Increase in working capital = working capital of the current period – working capital of the previous period

Of which, working capital = minimum cash holdings + receivables + inventory (raw materials only) – payables

Of which:

Receivables = total income from principal business/turnover rate of receivables

Of which, receivables mainly include accounts receivable, prepayments, and other receivables related to business operations.

Inventory = total direct materials/turnover rate of raw materials

Payables = total costs of principal business/turnover rate of payables

Of which, payables mainly include accounts payable, accounts received in advance, contractual liabilities, and other payables related to business operations.

According to the valuation assumptions, the structure of principal business, the composition of income and costs, and the business strategy of the appraised entity in the future operation period will continue based on the status determined by the relevant business contracts or agreements with legal effect after the Valuation Reference Date, without major changes. This valuation mainly, referring to the settlement period determined by the relevant business contracts or agreements with legal effect on the Valuation Reference Date, and combining with the statistical analysis of the historical assets and operating income and costs, and the estimated income and costs of each year in the future operation period of the appraised entity, predicted and obtained the increase in working capital of each year in the future operation period, as shown in the following table:

Currency Unit: RMB0'000

Item	Working capital on the Valuation Reference Date	2022	2023	2024	2025	2026	2027	2028
		Working capital requirements	511.31	491.42	494.72	479.66	478.79	491.06
Additional working capital required		-19.89	3.30	-15.06	-0.86	12.26	-1.97	10.23
Item		2029	2030	2031	2032	2033	2034	2035
Working capital requirements		506.50	518.55	523.86	522.31	523.00	523.86	524.73
Additional working capital required		7.19	12.05	5.31	-1.56	0.69	0.86	0.88
Item		2036	2037	2038	2039	2040	2041	2042
Working capital requirements		528.32	526.53	527.46	528.40	529.37	529.88	—
Additional working capital required		3.59	-1.79	0.92	0.95	0.96	0.51	-529.88

III. DETERMINATION OF DISCOUNT RATE

Since the income approach valuation model adopts the enterprise free cash flow discount model, the discount rate r is calculated and determined by the weighted average cost of capital model (WACC) according to the principle of unifying the expected income and the discount rate. Then:

$$r = r_d \times w_d + r_e \times w_e$$

Wherein: W_d : Debt ratio of the valuation subject;

$$w_d = \frac{D}{(E + D)}$$

W_e : Equity ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)}$$

r_d : Cost of debt after tax of the valuation subject;

r_e : Cost of equity capital. The cost of equity capital r_e is determined based on the capital asset pricing model (CAPM) in this valuation;

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon$$

Wherein: r_f : Risk-free rate of return;

r_m : Expected market rate of return;

ε : Characteristic risk adjustment coefficient of the valuation subject;

β_e : Expected market risk coefficient of equity capital of the valuation subject;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E})$$

β_u : Unleveraged market risk coefficient of comparable companies;

$$\beta_u = \frac{\beta_i}{1 + (1 - t) \frac{D_i}{E_i}}$$

β_i : Expected average market risk coefficient of shares of comparable company;

$$\beta_i = 34\%K + 66\%\beta_x$$

Wherein: K: Average risk value of stock market in a certain period, usually assuming K = 1;

β_x : Historical average market risk coefficient of shares of comparable company;

D_i and E_i : Interest-bearing debt and equity capital of comparable companies, respectively.

Of which, the valuers refer to the yield data of China's treasury bond trading market near the Valuation Reference Date, and select the yield of the treasury bond that is close to the yield period of the equity to be appraised as the risk-free rate of return.

1. Risk-free rate of return r_f

After consulting the website of China Appraisal Society, the yields of treasury bonds provided by China Central Depository & Clearing Co., Ltd. (CCDC) published on the website are as follows:

Yields of China's Treasury Bonds		
Date	Term	Current date (%)
2021-12-31	3 months	1.99
	6 months	1.99
	1 year	2.11
	2 years	2.30
	3 years	2.34
	5 years	2.54
	7 years	2.78
	10 years	2.78
	30 years	3.38

This valuation is based on the assumption of going concern, and the yield period of the entrusted valuation subject is infinite years. According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), the yield to maturity of the treasury bonds with a remaining maturity of 10 years or more can be used as the risk-free interest rate. The yield of 10-year treasury bonds is used as the risk-free interest rate in this valuation, that is, $r_f = 2.78\%$.

2. Expected market rate of return r_m

Market risk premium refers to the expected excess return required by investors for equity investment with the same average risk as the overall market, that is, the risk compensation that exceeds the risk-free interest rate. The market risk premium can usually be measured by using the historical risk premium data of the market. In this valuation, the long-term average rate of return of China's A-share market index is taken as the expected market rate of return r_m , and the part of the expected market rate of return that exceeds the risk-free interest rate is taken as the market risk premium.

According to the requirements of the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach (ZPX [2020] No. 38), when calculating the market risk premium by using China's securities market index, representative indexes shall be selected in general, such as the Shanghai and Shenzhen 300 Index, Shanghai Securities Composite Index, etc.; when calculating the excess rate of return of the index in a historical period, the time span can be more than 10 years, the data frequency can be weekly or monthly, and the calculation method can be arithmetic average or geometric average.

According to the follow-up study on China's A-share market conducted by the Research Institute of Allied Asset Appraisal Group, and in combination with the provisions of the above guidelines, in the valuation process, the representative Shanghai Securities Composite Index is selected as the underlying index, the weekly and monthly basis is selected as the data frequency, the arithmetic average is used to calculate and annualized to the annual rate of return. Thereafter, the arithmetic average, geometric average and harmonic average are calculated respectively, and the expected market rate of return is determined after comprehensive analysis, that is, $r_m=10.46\%$.

$$\text{Market risk premium} = r_m - r_f = 10.46\% - 2.78\% = 7.68\%.$$

3. Expected market risk coefficient of equity capital β_e

Based on the shares of Shanghai and Shenzhen listed companies in the water production and supply industry by the WIND classification, considering the comparability of the appraised entity and comparable companies in terms of business type, business size, profitability, growth, industry competitiveness, development stage and other factors, the valuers selected appropriate comparable companies, and took the Shanghai Securities Composite Index as the underlying index. After consulting the financial terminal of WIND Information, based on the market price as of the Valuation Reference Date, the valuers calculated and got the estimated β_u of the expected risk coefficient without financial leverage of shares of comparable companies according to the calculation period of 250 weeks before the Valuation Reference Date, and the expected market risk coefficient ($\beta_e = 0.5637$) of the equity capital of the appraised entity according to the average capital structure of the industry.

4. Characteristic risk adjustment coefficient ε and cost of equity capital r_e

When determining the discount rate, it is necessary to consider the differences between the valuation subject and listed companies in terms of business size, business development stage, core competitiveness, dependence on key customers and key suppliers, financing capacity and financing cost, and stability of profit forecast, so as to determine the specific risk coefficient. During the valuation process, the valuers compared and analyzed the enterprise and the comparable listed companies, and obtained the characteristic risk coefficient, that is, $\varepsilon = 1.10\%$, the specific process is shown in the following table:

Characteristic Risk Coefficient Analysis Table					
No.	Risk factor	Description of influencing factors	Value of influencing factors	Weight	Adjustment coefficient
1	Business size	The appraised entity has a business size close to the average level of the comparable listed companies	2	20	0.4
2	Business development stage	As an enterprise, the appraised entity has a business development stage close to the comparable companies	2	10	0.2
3	Core competitiveness	The enterprise has independent intellectual property rights, strong R&D ability and strong independent ability in business development compared with the comparable listed companies	2	20	0.4
4	Dependence on upstream and downstream industries	The enterprise has relatively high concentration of corporate customers and dependent on customers, and weak bargaining capability compared with the comparable listed companies	0	10	0
5	Financing capacity and financing cost	The enterprise has relatively poor financing ability (mainly relying on related parties to provide financial support) and high financing cost	1	10	0.1
6	Stability of profit forecast	The enterprise has relatively stable profit forecast, and the future annual growth rate is related to the industry level	0	20	0
7	Other factors	The enterprise has sufficient supporting information for profit forecast and high degree of realizability	0	5	0
Total				95	1.1

5. Selection of debt cost r_d

Based on the actual borrowing interest rate and borrowing situation of the appraised entity, the debt cost r_d in this valuation is selected to be 4.65%.

6. Determination of debt-to-equity ratio D/E

The debt-to-equity ratio in this valuation is determined according to the actual capital structure of the enterprise.

7. Discount rate r (WACC)

The above parameters are then substituted into the formulas to get the discount rates as follows:

Discount rate parameter		2022	2023	2024	2025	2026	2027	2028
Discount rate (i.e., weighted average cost of capital)	$WACC = K_e \times E / (D+E) + K_d \times D / (D+E) \times (1-T)$	8.06%	8.08%	7.77%	7.89%	8.03%	8.21%	8.21%
Cost of equity capital	$K_e = R_f + \beta \times R_{Pm} + R_c$	10.90%	10.37%	9.57%	9.12%	8.66%	8.21%	8.21%
Risk-free rate of return	R_f	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%
Beta without financial leverage	β_U	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Beta with financial leverage	$\beta_L = (1 + (1-T) \times D/E) \times \beta_U$	0.9139	0.8448	0.7413	0.6821	0.6229	0.5637	0.5637
Income tax rate	T	12.50%	12.50%	25.00%	25.00%	25.00%	25.00%	25.00%
Market risk premium	R_{Pm}	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%
Enterprise-specific risk adjustment coefficient	R_c	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%
Capital structure of the target company	D/E	71.00%	57.00%	42.00%	28.00%	14.00%	0.00%	0.00%
	$E/(D+E)$	58.48%	63.69%	70.42%	78.13%	87.72%	100.00%	100.00%
	$D/(D+E)$	41.52%	36.31%	29.58%	21.88%	12.28%	0.00%	0.00%
Cost of debt capital	K_d	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%
Discount rate parameter		2029	2030	2031	2032	2033	2034	2035
Discount rate (i.e., weighted average cost of capital)	$WACC = K_e \times E / (D+E) + K_d \times D / (D+E) \times (1-T)$	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%
Cost of equity capital	$K_e = R_f + \beta \times R_{Pm} + R_c$	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%
Risk-free rate of return	R_f	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%
Beta without financial leverage	β_U	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Beta with financial leverage	$\beta_L = (1 + (1-T) \times D/E) \times \beta_U$	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Income tax rate	T	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Market risk premium	R_{Pm}	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%
Enterprise-specific risk adjustment coefficient	R_c	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%
Capital structure of the target company	D/E	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	$E/(D+E)$	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	$D/(D+E)$	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of debt capital	K_d	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%
Discount rate parameter		2036	2037	2038	2039	2040	2041	2042
Discount rate (i.e., weighted average cost of capital)	$WACC = K_e \times E / (D+E) + K_d \times D / (D+E) \times (1-T)$	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%
Cost of equity capital	$K_e = R_f + \beta \times R_{Pm} + R_c$	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%
Risk-free rate of return	R_f	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%	2.7800%
Beta without financial leverage	β_U	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Beta with financial leverage	$\beta_L = (1 + (1-T) \times D/E) \times \beta_U$	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637	0.5637
Income tax rate	T	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Market risk premium	R_{Pm}	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%	7.68%
Enterprise-specific risk adjustment coefficient	R_c	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%
Capital structure of the target company	D/E	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	$E/(D+E)$	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
	$D/(D+E)$	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of debt capital	K_d	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%

IV. VALUE OF OPERATING ASSETS P

The expected free cash flow will be substituted into the calculation formula of operating assets to obtain the value of operating assets of the target company. The calculation results are shown in the following table:

Currency Unit: RMB0'000

Item	2022	2023	2024	2025	2026	2027	2028
I. Operating income	2,224.11	2,236.48	2,319.81	2,322.56	2,387.98	2,395.23	2,451.71
Less: operating costs	928.65	957.84	986.16	1,009.44	1,040.84	1,072.58	1,096.89
Business tax and surcharges	28.89	30.85	31.12	30.87	28.54	30.80	30.90
Sales expenses	—	—	—	—	—	—	—
Administrative expenses	91.08	92.98	93.31	92.98	93.23	95.07	97.31
R&D expenses	—	—	—	—	—	—	—
Finance expenses	370.04	342.42	265.86	188.40	112.95	38.31	—
Asset impairment loss	—	—	—	—	—	—	—
Add: investment income	—	—	—	—	—	—	—
Other income	62.19	70.04	71.55	69.87	56.26	69.29	69.82
II. Operating profit	867.64	882.43	1,014.91	1,070.75	1,168.67	1,227.76	1,296.42
Add: non-operating income	—	—	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—	—	—
III. Total profit	867.64	882.43	1,014.91	1,070.75	1,168.67	1,227.76	1,296.42
Less: income tax	108.46	110.30	253.73	267.69	292.17	306.94	324.11
IV. Net profit	759.19	772.12	761.18	803.06	876.50	920.82	972.32
Add: depreciation and amortization	528.28	530.58	528.83	526.12	531.84	539.09	539.01
After-tax interest expenses	323.78	299.62	199.40	141.30	84.72	28.73	—
Less: capital expenditure	50.00	—	—	—	160.00	—	—
Increase in working capital	-19.89	3.30	-15.06	-0.86	12.26	-1.97	10.23
Add: disposal of fixed assets	—	—	—	—	—	—	—
V. Free cash flow	1,581.14	1,599.02	1,504.47	1,471.34	1,320.79	1,490.62	1,501.10
VI. Discount rate	8%	8%	8%	8%	8%	8%	8%
Discount period	0.50	1.50	2.50	3.50	4.50	5.50	6.50
Discount coefficient	0.9620	0.8901	0.8247	0.7648	0.7085	0.6553	0.6056
Discounted value	1,521.06	1,423.29	1,240.74	1,125.28	935.78	976.80	909.07

Item	2029	2030	2031	2032	2033	2034	2035
I. Operating income	2,473.06	2,525.40	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98
Less: operating costs	1,121.33	1,146.07	1,168.71	1,179.47	1,183.00	1,189.01	1,195.14
Business tax and surcharges	30.77	30.83	28.17	30.63	30.60	30.56	30.53
Sales expenses	—	—	—	—	—	—	—
Administrative expenses	99.62	101.98	104.39	106.86	109.38	111.98	114.63
R&D expenses	—	—	—	—	—	—	—
Finance expenses	—	—	—	—	—	—	—
Asset impairment loss	—	—	—	—	—	—	—
Add: investment income	—	—	—	—	—	—	—
Other income	68.86	69.18	53.53	67.89	67.70	67.50	67.30
II. Operating profit	1,290.20	1,315.71	1,276.24	1,274.92	1,268.70	1,259.92	1,250.98
Add: non-operating income	—	—	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—	—	—
III. Total profit	1,290.20	1,315.71	1,276.24	1,274.92	1,268.70	1,259.92	1,250.98
Less: income tax	322.55	328.93	319.06	318.73	317.17	314.98	312.74
IV. Net profit	967.65	986.78	957.18	956.19	951.52	944.94	938.23
Add: depreciation and amortization	538.82	538.68	545.96	550.91	548.53	548.53	548.53
After-tax interest expenses	—	—	—	—	—	—	—
Less: capital expenditure	—	—	160.00	—	—	—	—
Increase in working capital	7.19	12.05	5.31	-1.56	0.69	0.86	0.88
Add: disposal of fixed assets	—	—	—	—	—	—	—
V. Free cash flow	1,499.28	1,513.41	1,337.83	1,508.65	1,499.36	1,492.62	1,485.89
VI. Discount rate	8%	8%	8%	8%	8%	8%	8%
Discount period	7.50	8.50	9.50	10.50	11.50	12.50	13.50
Discount coefficient	0.5596	0.5171	0.4779	0.4416	0.4081	0.3771	0.3485
Discounted value	839.00	782.58	639.35	666.22	611.89	562.87	517.83

Item	2036	2037	2038	2039	2040	2041	2042
I. Operating income	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98	2,523.98
Less: operating costs	1,201.39	1,207.74	1,214.22	1,220.83	1,227.58	1,226.86	868.09
Business tax and surcharges	28.00	30.46	30.42	30.39	30.35	30.32	27.78
Sales expenses	—	—	—	—	—	—	—
Administrative expenses	117.34	120.14	122.99	125.93	128.93	132.02	135.16
R&D expenses	—	—	—	—	—	—	—
Finance expenses	—	—	—	—	—	—	—
Asset impairment loss	—	—	—	—	—	—	—
Add: investment income	—	—	—	—	—	—	—
Other income	52.54	66.90	66.69	66.48	66.27	66.06	51.27
II. Operating profit	1,229.78	1,232.53	1,223.03	1,213.31	1,203.38	1,200.84	1,544.22
Add: non-operating income	—	—	—	—	—	—	—
Less: non-operating expenses	—	—	—	—	—	—	—
III. Total profit	1,229.78	1,232.53	1,223.03	1,213.31	1,203.38	1,200.84	1,544.22
Less: income tax	307.45	308.13	305.76	303.33	300.85	300.21	386.05
IV. Net profit	922.34	924.40	917.27	909.98	902.54	900.63	1,158.16
Add: depreciation and amortization	548.53	548.53	548.53	548.53	548.53	540.93	174.99
After-tax interest expenses	—	—	—	—	—	—	—
Less: capital expenditure	160.00	—	—	—	—	—	160.00
Increase in working capital	3.59	-1.79	0.92	0.95	0.96	0.51	-529.88
Add: disposal of fixed assets	—	—	—	—	—	—	—
V. Free cash flow	1,307.29	1,474.72	1,464.88	1,457.57	1,450.11	1,441.06	1,703.03
VI. Discount rate	8%	8%	8%	8%	8%	8%	8%
Discount period	14.50	15.50	16.50	17.50	18.50	19.50	20.50
Discount coefficient	0.3220	0.2976	0.2750	0.2541	0.2348	0.2170	0.2005
Discounted value	420.95	438.88	402.84	370.37	340.49	312.71	341.46
VII. Discounted value of free cash flow	15,379.44	—	—	—	—	—	—

The discounted value of free cash flow of the appraised entity is RMB153,794,400.

V. VALUE OF SURPLUS OR NON-OPERATING ASSETS

Surplus assets refer to the surplus assets that are not directly related to the income of the appraised entity and exceed the business needs of the appraised entity. After analysis, the appraised entity has no surplus assets.

Non-operating assets (liabilities) refer to the assets (liabilities) that have no direct and obvious relationship with the operating cash flow of the appraised entity or that do not generate benefits, which are not included in the range of the forecast of the net cash flow. According to the analysis, the non-operating assets of the appraised entity mainly include the borrowings due from related parties and interest receivable from related parties; non-operating liabilities are mainly interest payable by related party and consulting fees, details of which are as follows:

<i>Currency Unit: RMB0'000</i>				
No.	Name of item	Content of business	Book value	Appraised value
	Non-operating assets and liabilities, net		1,080.58	1,080.58
I	Non-operating assets		3,525.86	3,525.86
1	Other receivables	Financing receivables from related parties and interest receivable from related parties	3,500.52	3,500.52
2	Other current assets	Value-added tax to be mortgaged	25.34	25.34
II	Non-operating liabilities		2,445.28	2,445.28
1	Other payables	Interest payable, service fees	2,445.28	2,445.28

In this valuation, the abovementioned value of surplus or non-operating assets (liabilities) is separately assessed, and the appraised value of the surplus or non-operating assets (liabilities) of the appraised entity as at the Valuation Reference Date is:

$$C = C1 + C2 = 1,080.58 \text{ (RMB0'000)}$$

VI. VALUATION RESULTS USING THE INCOME APPROACH

1. Overall Value of the Enterprise B

$$\begin{aligned} \text{Overall value of the enterprise B} &= \text{value of operating assets P} + \text{value of surplus and non-operating} \\ &\quad \text{assets (liabilities) C} \\ &= 15,379.44 + 1,080.58 \\ &= 16,460.02 \text{ (RMB0'000)} \end{aligned}$$

2. Value of Interest-bearing Debt D

As of the Valuation Reference Date, the interest-bearing debt of the appraised entity was RMB77,304,300.

3. Value of the Entire Equity Interest of Shareholders E

According to the above appraisal work, the value of the entire equity interest of shareholders of the appraised entity is:

$$\begin{aligned} \text{Value of the entire equity interest of shareholders} &= \text{overall value of the enterprise B} - \text{value of} \\ &\quad \text{interest-bearing debt D} \\ &= 16,460.02 - 7,730.43 \\ &= 8,729.59 \text{ (RMB0'000)} \end{aligned}$$

* *For identification purposes only*



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The Board of Directors
Yunnan Water Investment Co., Limited
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Dear Sirs,

REPORT ON DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATIONS OF THE EQUITY INTERESTS IN THE TARGET COMPANIES (AS DEFINED BELOW)

To the Board of Directors of Yunnan Water Investment Co., Limited

We have examined the calculations of the discounted future estimated cash flows on which the valuations prepared by Allied Appraisal Co., Ltd., dated 31 October 2022 in respect of the equity interests in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd., and Lu'an Yeji Yunshui Water Investment Co., Ltd (collectively referred to as the “**Target Companies**”), as at 31 December 2021 (the “**Valuations**”) is based. The Valuations, prepared in connection with the Target Companies is set out in the circular dated 24 February 2023 (the “**Circular**”). The Valuations which are based on the discounted future estimated cash flows are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' Responsibilities

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

Reporting Accountant's Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

We conducted our engagement in accordance with the terms of our engagement letter dated 7 February 2023 and Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Companies. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

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

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

Moore Stephens CPA Limited

Certified Public Accountants

Cheung Sai Kit

Practising Certificate Number: P05544

Hong Kong, 24 February 2023



YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited**(a joint stock limited liability company incorporated in the People's Republic of China)***(Stock code: 6839)**

24 February 2023

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place Central
Hong Kong

Dear Sirs,

Re: Circular — Major Transaction in relation to the Disposals of 100% Equity Interests in Hyflux Waste Water and 100% Equity Interest in Yeji Yunshui Water

We, Yunnan Water Investment Co., Limited (the “**Company**”) (stock code: 6839), refer to the circular of the Company dated 24 February 2023 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We refer to the Valuations conducted by Allied Appraisal Co., Ltd. (the “**Valuer**”), an independent valuer. The Valuations adopt an income approach which is based on the discounted cash flow forecast and is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have discussed with the Valuer the different aspects upon which the Valuations were prepared (including the principal and commercial assumptions) and have reviewed the Valuations for which the Valuer is responsible.

Pursuant to Rule 14.62 of the Listing Rules, we have also engaged Moore Stephens CPA Limited, acting as the Company’s reporting accountants, to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (which does not involve the adoption of accounting policies), and considered the report from Moore Stephens CPA Limited which was prepared in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants, as set out in Appendix III to the Circular.

On the basis of the above, we confirm that the Valuations have been made after due and careful enquiry by us.

Yours faithfully,

On behalf of the Board
Yunnan Water Investment Co., Limited
Mei Wei
Chairman

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. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”), were as follows:

Name of Director, Supervisor and chief executive	Capacity	Type of Shares	Number of Shares held	Approximate	Approximate
				percentage of the respective type of Shares in issue (%)	percentage of the total number of Shares in issue (%)
Mr. Yu Long	Beneficial owner	Domestic Shares	10,820,000 (L)	1.30	0.91
Mr. Yu Long	Beneficial owner	H Shares	770,000 (L)	0.21	0.06
Mr. Yang Fang	Beneficial owner	Domestic Shares	1,755,000 (L)	0.21	0.15
Mr. Huang Yi	Beneficial owner	Domestic Shares	1,560,000 (L)	0.19	0.13
Mr. Zhou Zhimi	Beneficial owner	Domestic Shares	325,000 (L)	0.04	0.03

(L) refers to long position

Long positions in the shares and underlying shares of the associated corporation

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, the Supervisors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the Company's best knowledge, as at the Latest Practicable Date, the following persons (other than Directors, Supervisors or the chief executive of the Company whose interests are disclosed in the section headed "Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures" above) had interests or short positions in the Shares, underlying Shares or debentures of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of share capital in issue of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Green Environmental Protection ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) ²	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46
Caiyun International ¹	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	H Shares	8,449,000 (L)	2.32	0.71

Notes:

(L) refers to long position

- (1) Green Environmental Protection is wholly owned by YHTH and is the beneficial owner of 361,487,162 Domestic Shares. Caiyun International is wholly owned by YHTH and is the beneficial owner of 8,449,000 H Shares. YHTH is deemed to be interested in all the Domestic Shares held by Green Environmental Protection and H Shares held by Caiyun International pursuant to the SFO which representing approximately 31.01% of total issued Shares.

Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares.

Liu Xujun is the beneficial owner of 195,000 Domestic Shares.

Wang Yong is the beneficial owner of 585,000 Domestic Shares.

By virtue of the acting in concert agreement dated 24 July 2014 (the “**Acting in Concert Agreement**”) entered into between Green Environmental Protection, Liu Xujun, Huang Yunjian and Wang Yong, each of Liu Xujun, Huang Yunjian and Wang Yong agreed to act in concert with Green Environmental Protection in exercising their voting rights in the Shareholders’ meeting of the Company. Each of Green Environmental Protection, Liu Xujun, Huang Yunjian and Wang Yong is therefore deemed to be interested in all the Domestic Shares held by each other in aggregate pursuant to the SFO.

- (2) Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) (“**Ningbo Kunlun Xinyuan**”) is a general partner of Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) (“**XinZhen Tianying**”), which holds 3.85% equity interests in Xinzhen Tianying, the beneficial owner of 124,754,169 Domestic Shares; Ningbo Kunlun Xinyuan is owned as to 99% by Kunlun Trust Co., Ltd.; Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly owned by CNPC Capital Limited; CNPC Capital Limited is wholly owned by CNPC Capital Company Limited, which in turn is owned as to 77.35% by China National Petroleum Corporation.

Save as disclosed above, to the best knowledge of the Company, as at the Latest Practicable Date, no person (other than the Directors, Supervisors and chief executive of the Company) had informed the Company that he had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or held any interests or short positions in 5% or more of the respective types of capital in issue of the Company.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Group or associated companies which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up, and there is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

7. LITIGATION

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

8. MATERIAL CONTRACTS

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

- (a) the equity acquisition and share issuance agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company in respect of the acquisition of equity interests from Haining Water Investment Group and the Company by Qianjiang Biochemical at the consideration of RMB2,103.2 million to be settled through the issuance of shares by Qianjiang Biochemical (the “**Equity Acquisition and Share Issuance Agreement**”);
- (b) the profit guarantee agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company to specify the arrangements in relation to the undertaking by Haining Water Investment Group and the Company as stipulated under the Equity Acquisition and Share Issuance Agreement to indemnify Qianjiang Biochemical in the event that Zhejiang Haiyun Environmental Protection fails to achieve any of the minimum net profit requirements as specified therein;
- (c) the equity transaction agreement and its supplemental agreement dated 1 July 2021 entered into between the Company and Yueyang Construction and Investment Group Co., Ltd.* (岳陽市城市建設投資集團有限公司) in respect of the disposal of 51% equity interest held by the Company in Yueyang the Target Company Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司) at the consideration of RMB77,630,000;
- (d) the finance lease agreement dated 29 October 2021 (the “**Finance Lease Agreement**”) between Wuxi Zhongfa Water Investment Co., Ltd.* (無錫中發水務投資有限公司), Hyflux NewSpring (Guanyun) Co., Ltd.* (凱發新泉自來水(灌雲)有限公司), Hyflux NewSpring (Tiantai) Co., Ltd.* (凱發新泉水務(天台)有限公司), Hyflux NewSpring (Changshu) Co., Ltd.* (凱發新泉水務(常熟)有限公司) (together the “**Lessees**”, being the Company’s wholly-owned subsidiaries) and Shanghai Guojin Financial Leasing Co., Ltd. (“**Shanghai Guojin Leasing**”), pursuant to which Shanghai Guojin Leasing agreed to, among others, (i) acquire the all the facilities owned by the Lessees (the “**Leased Assets**”) at a consideration of RMB250,000,000, and (ii) lease back the Leased Assets to the Lessees with the lease term of six months;

- (e) the supplementary agreement dated 29 April 2022 between the Lessees and Shanghai Guojin Leasing, pursuant to which, among others, the lease term of the Leased Assets changed from “six months from the lease inception date” to “ten months from the lease inception date”;
- (f) the equity transaction agreement dated 3 November 2022 entered into between Yunnan Water (Hong Kong) Company Limited (“**Yunnan Water (Hong Kong)**”, being the Company’s wholly-owned subsidiary) and Global Environment Investment (HK) Limited (“**Global Environment Investment**”), pursuant to which, Yunnan Water (Hong Kong) agreed to sell, and Global Environment Investment agreed to acquire, 100% interest in Yunshui Technology Co., Ltd* (雲水科技有限公司) at the consideration of RMB296,259,700;
- (g) the Hyflux Equity Transaction Agreement; and
- (h) the Yeji Equity Transaction Agreement.

9. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts which have given their opinion and/or advice as contained in this circular:

Name	Qualification
Allied Appraisal Co., Ltd. (中聯國際評估諮詢有限公司)	Professional valuer
Moore Stephens CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts:

- (a) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which 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 financial statements of the Group were made up); and
- (c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and its letter in the form and context in which they respectively appear.

The letter and recommendation from each of the above experts is given as of the date of this circular for incorporation herein.

10. MISCELLANEOUS

The registered office and principal place of business in the PRC of the Company is located at 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan, the PRC. The principal place of business of the Company in Hong Kong is located at Suites 3110–11, 31/F, Tower 1, The Gateway, Harbour City, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The company secretary of the Company is Mr. Li Bo, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Public Accountants of Australia.

The branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

The English text of this circular shall prevail over the Chinese text in case of any inconsistency, except for the English names/translations of the companies established in the PRC, relevant authorities in the PRC and other Chinese terms used in this circular which are only translations of their official Chinese names.

11. DOCUMENTS ON DISPLAY

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

- (a) Equity Transaction Agreements;
- (b) the letters on profit forecast issued by Moore Stephens CPA Limited and the Board, the texts of which are set out in Appendices III and IV to this circular;
- (c) the Valuation Reports, set out in Appendix II to this circular;
- (d) the written consent referred to in the paragraph headed “Experts and Consents” in this appendix;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
and
- (f) this circular.