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北京控股環境集團有限公司
BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

MAJOR TRANSACTION

**INVESTMENT AGREEMENT FOR OPERATING LICENSE OF
SHIYAN URBAN DISTRICT HOUSEHOLD WASTE INCINERATION
POWER GENERATION PROJECT**

A letter from the Board is set out on pages 4 to 12 of this circular.

16 June 2023

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DEFINITIONS

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

“associate”	has the meanings ascribed to it by the Listing Rules;
“BEHL”	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392);
“Beikong Environment Investments”	Beijing Beikong Environment Investments Co., Ltd.* (北京北控環境投資有限公司), a company incorporated under the laws of the PRC with limited liability and is indirectly wholly owned by the Company;
“Board”	the board of Directors;
“Company”	Beijing Enterprises Environment Group Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 154);
“connected person(s)”	has the meanings ascribed to it by the Listing Rules;
“Director(s)”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Idata”	Idata Finance Trading Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by BEHL, is the immediate holding company of the Company;
“Investment Agreement”	the Investment Agreement for Operating License of Shiyuan Urban District Household Waste Incineration Power Generation Project entered into by Shiyuan Management Committee and the Company for the implementation of the Shiyuan Project;

DEFINITIONS

“kwh”	kilowatt hour;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MW”	Megawatt;
“Operating License”	the operating license for the Shiyan project;
“Operating License Agreement”	the Operating License Agreement of Shiyan Urban District Household Waste Incineration Power Generation Project to be entered into by Shiyan Management Committee and the Project Company pursuant to the Investment Agreement;
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);
“Project Company”	a limited company to be established by Shiyan Urban Holding and Beikong Environment Investments under the PRC law and the Investment Agreement, and to be granted with the Operating License;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) in the share capital of the Company;
“Shareholder(s)”	holders of the Shares;
“Shiyan Urban Holding”	Shiyan Urban Holding Asset Management Co., Ltd.* (十堰市城控資產經營有限公司);
“Shiyan Management Committee”	Shiyan Urban Management and Law Enforcement Committee* (十堰市城市管理執法委員會);
“Shiyan Project”	Shiyan Urban District Household Waste Incineration Power Generation Project* (十堰市城區生活垃圾焚燒發電項目);

LETTER FROM THE BOARD



北京控股環境集團有限公司

BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

Executive Directors:

Mr. Ke Jian (*Chairman*)

Ms. Sha Ning

Mr. Chen Xinguo

Mr. Yu Jie

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Independent Non-Executive Directors:

Dr. Jin Lizuo

Dr. Huan Guocang

Dr. Wang Jianping

Prof. Nie Yongfeng

Mr. Cheung Ming

16 June 2023

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION

INVESTMENT AGREEMENT FOR OPERATING LICENSE OF SHIYAN URBAN DISTRICT HOUSEHOLD WASTE INCINERATION POWER GENERATION PROJECT

INTRODUCTION

Reference is made to the announcement of the Company dated 26 May 2023, whereby the Company announced that on 26 May 2023, Shiyang Management Committee and the Company entered into the Investment Agreement for the Operating License of the Shiyang Project.

LETTER FROM THE BOARD

This circular provides you with, among other things, (i) the details of the Shiyan Project, the Investment Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; and (iii) the business valuation report of the Shiyan Project for information purposes only.

INVESTMENT AGREEMENT

Date: 26 May 2023

Parties: (1) Shiyan Management Committee; and
(2) the Company

Pursuant to the Investment Agreement, Shiyan Management Committee will grant the Operating License to the Project Company to be established by Shiyan Urban Holding and Beikong Environment Investments (a wholly-owned subsidiary of the Company). The Project Company will be responsible for the investment and financing, construction, operation and maintenance of the Shiyan Project (including phase I, phase II and all the contents of the project) and will transfer the project to the entity designated by the government at zero consideration upon the expiry of the Operating License.

Beikong Environment Investments and Shiyan Urban Holding will establish the Project Company in Shiyan City in accordance with the PRC laws within 45 days after the signing of the Investment Agreement. The Project Company and Shiyan Management Committee will officially sign the Operating License Agreement within 15 working days after the establishment of the Project Company.

Summary of the Shiyan Project

The Shiyan Project includes the construction of a household waste incineration power plant and the transformation of the ancillary fly ash landfill:

- The household waste incineration power plant is located in Zhangwan District, Shiyan City, Hubei Province, the PRC with a construction land area of 110 mu and a total construction capacity of 1,200 tonnes/day and will be implemented in two phases. The capacity of the phase I construction is 600 tonnes/day and it will adopt a grate incinerator with a capacity of 600 tonnes/day with an ancillary waste heat boiler with medium temperature and sub-high pressure and a selected 15MW condensing turbo generator unit. The construction land for phase II with a capacity of 600 tonnes/day is reserved.

LETTER FROM THE BOARD

- It will conduct an ancillary transformation of the previous waste landfill in western Shiyan and convert it into a fly ash landfill, which is about 5 kilometers from the incineration power plant with a storage capacity for fly ash of about 400,000 cubic meters.

Shiyan Management Committee publicly issued the tender document of the Shiyan Project in April 2023. According to the feasibility study report issued by Central & Southern China Municipal Engineering Design and Research Institute Co., Ltd., the estimated total investment on the construction of the Shiyan Project is RMB459,388,600. On 24 April 2023, the Company submitted the bidding document of the Shiyan Project. Based on the internal feasibility study of the Company, the estimated total investment on the construction of the Shiyan Project is revised to RMB457,100,000 (equivalent to approximately HK\$507,889,000), comprising construction investment of RMB444,701,000 (construction cost of RMB372,416,000, construction other expenses of RMB51,872,000, reserve fund of RMB20,413,000), borrowing interests in construction period of RMB10,860,000, and initial working capital of RMB1,539,000.

Establishment of the Project Company

The organisational form of the Project Company is a limited liability company. The Project Company will set up a board of directors comprising 5 members, 1 of which will be recommended by Shiyan Urban Holding and 4 will be recommended by Beikong Environment Investments. The board of directors shall have a chairman who shall be elected by the board of directors.

The registered capital of the Project Company is determined to be RMB91,420,000 (equivalent to approximately HK\$101,578,000), representing 20% of the estimated total investment of the Shiyan Project of RMB457,100,000 (equivalent to approximately HK\$507,889,000). Shiyan Urban Holding will contribute RMB9,142,000 (equivalent to approximately HK\$10,158,000) in cash, holding 10% equity interest of the Project Company. Beikong Environment Investments will contribute RMB82,278,000 (equivalent to approximately HK\$91,420,000) in cash, holding 90% equity interest of the Project Company. Beikong Environment Investments will pay up RMB70,000,000 (equivalent to approximately HK\$77,778,000) within three months after the establishment of the Project Company and the remaining funds will be paid up based on the construction progress during the construction period.

For the part in addition to the registered capital, i.e. 80% of the estimated total investment of the Shiyan Project, RMB365,680,000 (equivalent to approximately HK\$406,311,000) will be raised by the Project Company through financing from banks.

LETTER FROM THE BOARD

Major Terms and Contents of the Operating License Agreement

1. Operation Model of the Project

The Shiyan Project will adopt the “BOT+ROT” operation approach, among which, the household waste incineration power plant will adopt the “Build-Operate-Transfer” (BOT) model and the ancillary fly ash landfill will adopt the “Reconstruct-Operate- Transfer” (ROT) model.

2. Contents of the Operating License of the Project

The People’s Government of Shiyan City will authorise Shiyan Management Committee to grant the Operating License to the Project Company. During the term of the Operating License, the Project Company will be responsible for the investment and financing, construction, operation and maintenance of the Shiyan Project (including phase I, phase II and all the contents of the project) and will transfer the project to the entity designated by the government at zero consideration upon the expiry of the Operating License.

During the term of the Operating License, the Project Company will provide waste treatment services within the scope of the Operating License, be responsible for handling the fly ash under the requirements arising from the Shiyan Project, and have the right to obtain the waste treatment service fees paid by the government in accordance with the Operating License Agreement and the revenue from the on-grid sale of power generated from waste incineration, steam supply and the recycling of other relevant products.

- The waste treatment service fee is RMB73.38 (equivalent to approximately HK\$81.53) (value added tax inclusive) per tonne and is paid by the government.
- The Project Company and the grid company will enter into a power sale contract and the grid company will pay the on-grid electricity fees.

3. Term of the Operating License

The term of the Operating License of the Shiyan Project is 30 years from the date of the official signing and effectiveness of the Operating License Agreement to the date of transfer. Among which, the construction period is 2 years (including the preliminary work and the construction period) and the operation period is 28 years. The Shiyan Project is expected to complete the construction and put into operation by the end of 2024.

4. Minimum Waste Demand (Guaranteed Minimum Volume)

The minimum household waste demand of the waste incineration and treatment project in the first, second and third years will be 70%, 75% and 80% of the designed capacity, respectively. The minimum demand in the fourth and subsequent years will be 85% of the designed capacity. When the volume of waste input is less than the minimum demand in the corresponding year, the government will pay the household waste treatment service fees at the minimum demand level to the Project Company.

LETTER FROM THE BOARD

5. *Price Adjustment Mechanisms of Waste Treatment Service Fees*

The Shiyan Project sets up three price adjustment mechanisms, namely the price adjustment on changes in total investment in the project (the impact of the audited results of the total investment in the project on the unit price of waste treatment service fees), the price adjustment on changes in costs and the price adjustment on changes in on-grid electricity fees.

6. *Construction and Operation of Phase II of the Project*

The capacity of 1,200 tonnes of the Shiyan Project is set based on the current amount of waste, the estimation on the future population, the waste separation and the stock of perishable waste at the waste landfill in western Shiyan. When the phase I treatment capacity is unable to meet the demand for urban household waste treatment or the governance plan on the western waste landfill is carried out, the Project Company, as the construction company, will invest and initiate the construction of the phase II incineration power generation project based on the phase I operation model upon reporting to the municipal government for approval. The corresponding marginal conditions and the calculation of the treatment fees will be principally extended from the requirement of the phase I project. At present, the Company has no concrete plans (including financial projections or timelines) to invest and initiate the construction of the phase II incineration power generation project.

INFORMATION ON BEIKONG ENVIRONMENT INVESTMENTS, SHIYAN MANAGEMENT COMMITTEE AND SHIYAN URBAN HOLDING

Beikong Environment Investments is an investment holding company established in Beijing, the PRC, which is an indirect wholly-owned subsidiary of the Company and will become a shareholder of the Project Company with a 90% equity interest in the Project Company.

Shiyan Management Committee is a department of the People's Government of Shiyan City, Hubei Province, the PRC, and is responsible for urban management. Shiyan Management Committee is the implementing body of the Shiyan Project and has the right (including but not limited to) to grant the Operating License to the Project Company.

Shiyan Urban Holding is a state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shiyan City, Hubei Province, the PRC. It is principally engaged in the operation and management of state-owned assets authorised by the government. Shiyan Urban Holding will become a shareholder of the Project Company holding a 10% equity interest in the Project Company.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Shiyan Management Committee, Shiyan Urban Holding and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

REASONS AND BENEFITS

The Company is a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 154). The Company is an investment holding company and its subsidiaries are principally engaged in the environmental protection and solid waste treatment business in the PRC. Currently, the Group invests in and operates ten solid waste treatment projects within the PRC, including nine household waste incineration power generation projects (with a total waste treatment capacity of 12,475 tonnes/day) and one hazardous and medical waste treatment project. For the year ended 31 December 2022, the Group processed 3.84 million tonnes of household waste with 1,161 million kWh of on-grid electricity.

The Group is principally engaged in household waste incineration power generation. Owing to the adverse impacts of the waste separation policy and the decrease in national subsidies, the increasingly stringent national environmental protection policies and the correspondingly increase in operating costs posed certain challenges to the profit growth of the Group. The Group has actively negotiated with the local government departments in respect of the alteration and/or expansion works of the existing waste incineration plants, increased capital investment in environmental protection technology, propelled the development of the dual carbon businesses and actively expanded the collaborative treatment of sludge businesses in order to create business opportunities for the Group's operating prospects and sustainable development. In addition, the Group is constantly seeking potential investment opportunities to strengthen the overall competitiveness and market position of the Group in the solid waste treatment industry.

Shiyan is a prefecture-level city in Hubei Province, the PRC and is a regional hub in the borders of Hubei, Henan, Shaanxi and Chongqing, an ecological and cultural tourism area as well as a key base for the automobile industry in the PRC. Currently, there is no independent household waste incineration power plant in the urban areas of Shiyan. With the economic development and the increase in the urban population, the construction of the Shiyan Project is essential and the operation of the project enjoys a bright prospect with stable economic benefits.

According to the 14th Five-Year Plan for Circular Economy Development, the construction of the Shiyan Project is of significance in the establishment and improvement of the economic system on the green, low-carbon and circular development in Shiyan City. The market of the waste incineration power generation projects has become increasingly competitive. Not only the investment of the Group in the Shiyan Project increase the total capacity of the Group in terms of solid waste treatment, but also the positive significance of the government, the industry and the public.

LETTER FROM THE BOARD

PROJECT RISKS

1. Risk of waste supply

The Shiyang Project may face the risk of insufficient waste supply during the term of the Operating License. Based on the comprehensive consideration that Shiyang City is a tourism city and its future population growth, the Shiyang Project is located in urban areas and enjoys advantages in waste transportation. The Shiyang Project enjoys the guarantee on the minimum waste demand (the guaranteed minimum volume). Shiyang Urban Holding is a shareholder of the Project Company, which is conducive to the coordination with the municipal government in waste allocation and guaranteeing the volume of waste input.

2. Policy risk on of-grid electricity fees

The Shiyang Project will implement the competitive on-grid pricing mechanism for waste incineration power generation with national subsidies during the operation period. For the power generated not exceeding 280 kWh per tonne of household waste, it shall be lower than the national standard benchmark electricity tariff on waste incineration power generation of RMB0.65 per kWh. In addition, the future changes in policies on national subsidies for on-grid electricity fees will lead to a significant impact on the economic benefits of the project, which is the risk faced by the entire industry nationwide. The Operating License Agreement will set out the price adjustment mechanisms and specify in the terms of the price adjustment mechanisms on electricity fees to adjust the waste treatment service fees accordingly.

Moreover, steam supply is an important measure for solving the decrease in national subsidies on on-grid electricity fees for waste incineration power generation projects. Based on the dual carbon targets, the replacement by steam is also a means of carbon reduction. The Shiyang Project will tackle the risks of the declining electricity fees through the sales of steam.

FINANCIAL AND OTHER EFFECTS

Upon establishment of the Project Company, it will become a non-wholly owned subsidiary of the Company, in which 90% of equity interest will be held indirectly by the Company, and its financial results, assets and liabilities will be consolidated into the accounts of the Group.

It is expected that upon the entering into the Investment Agreement, the establishment of the Project Company and the entering into the Operating License Agreement, there will not be any immediate impact on the earnings of the Group. The impact on the future earnings of the Group will depend on, among other things, the construction profit during the construction period and the operating results of the Project Company. The Directors expect that the establishment of the Project Company and the entering into the Operating License Agreement will have a positive impact on the future earnings of the Group.

LETTER FROM THE BOARD

The capital commitment of the Company to the Project Company will be financed in cash from internal resources of the Group.

As disclosed in the annual report of the Company for the year ended 31 December 2022, the audited consolidated total assets and total liabilities of the Group as at 31 December 2022 were approximately HK\$12,167,226,000 and HK\$8,057,430,000, respectively. The establishment of the Project Company and the estimated investment in the Shiyan Project with a total investment amount of approximately RMB457,100,000 (equivalent to approximately HK\$507,889,000) will increase both the consolidated total assets and total liabilities of the Group based on the construction progress of the Shiyan Project, and the gearing ratio (a ratio of total liabilities to total assets) of the Group will increase accordingly. The Group will continuously maintain a strong capital position.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the capital commitment of the Project Company to be established by the Company under the Investment Agreement exceed 25% but are less than 100%, the entering into the Investment Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder; and (ii) written approval of the Investment Agreement and the transactions contemplated thereunder having been obtained from a Shareholder or a closely allied group of Shareholders (who together hold more than 50% of the issued Shares and having the right to attend and vote at a general meeting), the Shareholders' approval may be obtained by way of written Shareholders' approval instead of convening a general meeting.

To the best knowledge of the Company after having made all reasonable enquiries, no Shareholder has a material interest in the Investment Agreement and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Investment Agreement and the transactions contemplated thereunder. As of the date of this announcement, BEHL and Idata, a wholly-owned subsidiary of BEHL, are interested in 17,445,000 Shares and 738,675,000 Shares, respectively, and form a closely allied group of Shareholders holding an aggregate of 756,120,000 Shares (representing approximately 50.4% of the total number of Shares in issue). As BEHL and Idata do not have any material interest in the Investment Agreement and the transactions contemplated thereunder other than through their interests in the Shares, and the Company has obtained written approval from BEHL and Idata, no extraordinary general meeting of the Company will be convened for the purpose of approving the Investment Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATIONS

None of the Directors has a material interest in the Investment Agreement and the transactions contemplated thereunder or are required to abstain from voting on the Board resolutions for considering and approving the Investment Agreement and the transactions contemplated thereunder.

The Directors (including the independent non-executive Directors) are of the view that the Investment Agreement has been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms of the Investment Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

If the Investment Agreement and the transactions contemplated thereunder are required to be proposed at the general meeting of the Company for consideration and approval, the Board recommends the Shareholders to approve the same.

ADDITIONAL INFORMATION

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

Yours faithfully,

By order of the Board

Beijing Enterprises Environment Group Limited

Ke Jian

Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.beegl.com.hk):

- the annual report 2020 of the Company for the year ended 31 December 2020 dated 31 March 2021 (pages 41 to 133);
- the annual report 2021 of the Company for the year ended 31 December 2021 dated 31 March 2022 (pages 42 to 135); and
- the annual report 2022 of the Company for the year ended 31 December 2022 dated 31 March 2023 (pages 41 to 135).

2. INDEBTEDNESS STATEMENT OF THE GROUP**Borrowings**

As at the close of business on 30 April 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had (a) outstanding bank borrowings of approximately HK\$1,458,402,000, of which HK\$1,416,850,000 are secured by mortgage over certain solid waste treatment concession rights of the Group, which comprises operating concessions and receivables under service concession arrangements with an aggregate net carrying amount of approximately HK\$2,752,302,000, which are managed by the Group pursuant to the relevant service concession arrangements signed with the grantors; (b) unsecured loans from the immediate holding company, fellow subsidiaries and a non-controlling equity holder of a subsidiary in aggregate of approximately HK\$4,430,683,000, and (c) lease liabilities with a present value of minimum lease payments of approximately HK\$36,644,000.

Contingent liabilities

As at 30 April 2023, the Group did not have any significant contingent liabilities.

Disclaimer

The Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities as at the close of business on 30 April 2023.

3. WORKING CAPITAL OF THE GROUP

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Group and the Project Company to be established, including their internally generated revenue and funds, the Group and the Project Company to be established will have sufficient working capital to meet their present requirements for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

A. BUSINESS VALUATION REPORT OF THE SHIYAN PROJECT

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from CHFT Advisory and Appraisal Ltd., an independent valuer, in connection with the business valuation of the Shiyang Project as at 30 April 2023.



Our Ref.: CV/RWA/31320/2023

Date : 16 June 2023

Beijing Enterprises Environment Group Limited

66th Floor, Central Plaza,
18 Harbour Road,
Wan Chai, Hong Kong

Attn.: Board of Directors

Dear Sirs/Madams,

RE: Valuation of Waste Treatment Plant Investment Project

In accordance with an instruction from Beijing Enterprises Environment Group Limited (the “**Beijing Environment**” or the “**Instructing Party**”), we hereby provide a valuation on market value basis of a waste treatment investment project as at 30 April 2023 (the “**Valuation Date**”). The subject project represents:

– 十堰市城區生活垃圾焚燒發電項目 (the “**Subject Project**”).

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Subject Project. This valuation is complied with the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors (“**RICS**”) and International Valuation Standards (“**IVS**”) published by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the market value of the Subject Project for the Instructing Party’s internal reference purpose only.

1. SCOPE OF WORK

In conducting this valuation exercise, our scope of work includes:

- Co-ordinated with the representatives of the Instructing Party to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Subject Project, including the legal documents, project reports, etc. made available to us;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Subject Project made available to us and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyse the market data and derived the estimated market value of the Subject Project; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party and its authorised representatives.

2. BACKGROUND OF THE SUBJECT PROJECT

The Subject Project is located in Shiyan City, Hubei Province for the construction of a household waste incineration power plant. The Subject Project will be built in two phases: the first phase will treat 600 tonnes of domestic waste, 35 tonnes of dry sludge and 100 tonnes of food waste per day; the second phase will treat 600 tonnes of domestic waste per day.

In April 2023, the Instructing Party successfully won the bidding for the Subject Project as announced by the Hubei provincial government. The capital commitment for the first phase project is approximately RMB457.1 million, according to the bidding document provided by the Instructing Party.

This purpose and scope of this valuation is to assess the value of the economic benefit obtained by the Instructing Party by engaging in the Subject Project.

3. VALUATION METHODOLOGY

There are three generally accepted valuation approaches in this valuation. The valuation approaches are sourced from International Valuation Standards 105 – Valuation Approaches and Methods.

3.1. Asset Approach (or Cost Approach)

The cost approach, (or know as asset approach), takes an asset-based prospective rather than a market-oriented prospective. It requires valuing the assets on an individual basis to add up to the total values of assets.

Under this approach, the values of individual components or parts of the subject asset is estimated by valuers on an itemised basis, thus arriving at the valuation of the subject asset. This approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for any value deterioration factors and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- the individual components or parts of the subject asset can be clearly identified. Such components or parts generate economic benefit by itself and require few management or operation; or
- market participants would be able to recreate an asset with substantially the same utility as the subject asset, and the asset could be recreated quickly; or
- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

3.2. Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value; or
- the asset or substantially similar assets are actively publicly traded; or
- there are frequent or recent observable transactions in substantially similar assets.

3.3. Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; or
- reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

3.4. Selection of Valuation Methodology

We considered that the cost approach was not an appropriate approach for the valuation. As the Subject is yet to be built, there is no assessable cost invested. Accordingly, the cost approach was not adopted.

We also considered that the market approach was not applicable for the valuation. Although there are several listed companies engaging on waste treatment business, the assessment on the Subject Project focuses on a single project yet to be built, rather than a company with multiple projects at different stage of development. We consider that common pricing multiple obtained from listed companies cannot be directly applied on project level. Accordingly, the market approach was not adopted.

In light of the above, the income approach was used for the valuation of the Subject Project, as it takes the future revenue and specific characteristics of the Subject Project into consideration. Specifically, we noticed that key revenue assumptions, such as waste treatment volume, waste treatment price, electricity price, etc, have already been contracted and determined by the Instructing Party and local government so it is easier to prepare a reliable projection. Thus, we have chosen the Discounted Cash-flow Method (the “**DCF Method**”) in order to determine the value of the Subject Project.

The DCF Method revolves around the concept that the value of a subject is determined through calculating the present value of all future benefits that flow to the owner by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the asset, or a combination of both. In essence, this valuation method requires a forecast to be made on cash flows, and extending the forecasts into the future until the asset reaches an assumed stabilization state. This methodology assumes that the forecasted income/cash flow will not necessarily be stable in the near term, but will eventually stabilize in the future.

4. FINANCIAL FORECAST – SUBJECT PROJECT

Forecast Period

Based on our discussion with the management and the agreed terms with local government, in this valuation, the whole concession period of the Subject Project is 30 years, comprising a 2-year construction period from 2023 to 2024 and a 28-year operation period from 2025 to 2052.

Please refer to Appendix One of this report for a detailed financial projection of the Subject Project.

Production Capacity

Based on our discussion with the management and the agreed terms with local government, the Subject Project is expected to have a treatment volume of 600 tonnes of waste per day. The Subject Project is expected to treat 450 tonnes to 550 tonnes of waste per day from 2025 to 2027, as the Subject Project gradually gains operational experience to reach its designed capacity. Starting from 2028 the Subject Project is expected to operate at 600 tonnes of waste per day.

Revenue

Total revenue of the Subject Project consists of two parts: 1) the fees received from treating household waste; and 2) the sales of electricity to the province's power company.

Waste Treatment: The first source of revenue of Subject Project is from subsidies by the local government for the treatment of household waste. The Subject Project is expected to have a waste treatment capacity of 600 tonnes/day for the life of the Subject Project. The agreed subsidy amount is RMB73.38 per tonne before inflation adjustment.

Electricity Generation: According to the “Circular on Improving the Pricing Policy for Waste Incineration-power Generation” promulgated by the National Development and Reform Commission (“NDRC”) in March 2012, the Subject Project will receive inflation adjusted RMB0.65 per kWh of electricity provided to the power grid. The average amount of electricity generated per year throughout the operation period is expected to be 474 kWh per tonne in long-term. We consider the electricity generating efficiency is within reasonable range, based on a set of publicly available researches.

From 2025 to 2028, the Subject Project is expected to grow at 12.7% to 14.7%, as the treatment volume of the Subject Project increases from 450 tonnes to 600 tonnes per day. Starting from 2029, the Subject Project is expected to grow stably at around 3.0% - 4.0%, in line with long-term growth rate.

Costs

Based on our discussion with the management, the costs related to the business includes raw material fees, coal and operational expenses, treatment fees for leachate, slag and gas, repair and maintenance fees, wages and other administrative expenses.

Operating Profit Margin

The operating profit margin of the Subject Project from 2025 to 2027 is expected to be from 17.1% to 31.1%, as the Subject Project gradually gains operational experience to reach its designed capacity.

Starting from 2028, the Subject Project reaches its designed capacity and the operating profit margin is expected to achieve a range from 35.3% – 42.7%. Such operating profit margin is within a reasonable range as observed from brokerage reports and comparable companies.

Income Tax

Based on our discussion with the management and in accordance with the relevant tax laws in the PRC, after the Subject Project is put into use, the first three years will be tax-free, the second three-year tax rate will be halved, and the subsequent tax rate will be 25% per annum.

Capital Expenditure

Based on our discussion with the management, capital expenditure of the investment in the construction and equipment is estimated to be RMB179,653,000 in 2023, RMB275,908,000 in 2024 and RMB1,539,000 in 2025.

5. DISCOUNT RATE

We adopted the weight average cost of capital (the “WACC”) as the benchmark rate in valuing the discount rate of the Subject Project. WACC comprises two components: cost of equity and cost of debt. Cost of equity was developed using Capital Asset Pricing Model (the “CAPM”). The CAPM states that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for other risks. Cost of debt was developed with reference to the long-term prime lending rate.

Our determined WACC for the Subject Project is **7.0%**.

We have selected a group of comparable companies listed on stock exchanges to provide a reasonable reference in order to evaluate the industry's beta and capital structure used. Our selection criteria are that the comparable companies should:

- Primarily be engaged in waste treatment, power generation, wastewater treatment, or related renewable energy concession projects (i.e. revenue earned in relevant segments representing > 50% of total revenue);
- Have their primary operations in an environment similar to the Subject Project (i.e. operates in Mainland China and the major customer being local government); and
- Information on the peer firms must be extracted from a reliable source (i.e. annual reports, renowned financial database such as FactSet, research reports, etc).

The comparable companies are listed as below:

Ticker	Company Name	Debt to Equity Ratio	Unleveraged Beta
002034-CN	Wangneng Environment Co., Ltd. Class A	77.26%	0.51
3718-HK	Beijing Enterprises Urban Resources Group Ltd.	125.07%	0.33
3989-HK	Capital Environment Holdings Limited	498.56%	0.14
436-HK	New Universe Environmental Group Limited	23.54%	0.08
601330-CN	Dynagreen Environmental Protection Group Co., Ltd.	184.68%	0.42
603568-CN	Zhejiang Weiming Environment Protection Co., Ltd.	19.20%	0.67
6136-HK	Kangda International Environmental Co., Ltd	876.01%	0.06
895-HK	Dongjiang Environmental Company Limited Class H	1122.53%	0.05
Median		154.9%	0.23

Calculation of the Weighted Average Cost of Capital (WACC):

Parameters	30 April 2023	Note
Debt to Equity Ratio	154.9%	1
Unlevered Beta	0.23	2
Levered Beta	0.51	3
Equity Risk Premium	7.16%	4
Risk Free Rate	2.80%	5
Size Premium	3.67%	6
Specific Premium	2.00%	7
Cost of Equity	12.1%	
Cost of Debt	4.90%	8
Tax Rate	25.00%	9
After-Tax Cost of Debt	3.7%	
WACC (rounded)	7.0%	

Notes:

1. Derived based on the debt-to-equity ratio of a set of comparable companies. Source: FactSet;
2. Derived based on the unlevered beta of a set of comparable companies. Source: FactSet;
3. Relevered beta with the target capital structure derived from comparable companies;
4. Database of global equity risk premiums. Source: Aswath Damodaran's risk premium database;
5. Derived with reference to the yield of 10-year Chinese sovereign bonds. Source: FactSet;
6. Source: Duff & Phelps Valuation Yearbook;
7. Specific premium is designed to account for additional risk factors specific to the business, including but not limited to expansion risk, uncertainty in industrial policy, market risk, etc.;
8. The prevailing 5-year prime lending rate in the PRC. Source: FactSet;
9. The corporate income tax rate of China;

6. TERMINAL GROWTH

In this valuation, as the contractual concession period is 30 years, it is assumed that the Subject Project will terminate upon expiry of the concession period. Thus, no terminal growth or terminal value is assessed.

7. COMPUTATION OF RESULT

Please refer to Appendix Two of this report for a detailed computation process of the value of the Subject Project.

8. SENSITIVITY ANALYSIS

The following table indicates the instantaneous change in the value of the Subject Project that would arise if the key inputs for valuation as of the Valuation Date had changed at that date, assuming all other risk variables remained constant.

Unit: RMB'000

WACC		6.00%	6.50%	7.00%	7.50%	8.00%
Inflation Rate	2.0%	470,389	442,661	417,196	393,771	372,188
	2.5%	496,672	466,854	439,500	414,367	391,237
	3.0%	525,123	493,009	463,583	436,577	411,753
	3.5%	555,948	521,311	489,610	460,551	433,870
	4.0%	589,375	551,964	517,765	486,452	457,735

9. PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on market value basis and market value is defined as “the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm’s-length transaction”.

9.1. Source of Information

Our investigation covers the discussion with the Subject Project and the Instructing Party's representatives, the collection of information including the details of the Subject Project.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Subject Project were prepared in reasonable care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party. We have also sought confirmation from the Instructing Party at no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

9.2. Factors Considered

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of household waste and electricity in the region;
- The price of raw materials and auxiliary fuel;
- Operation and financial risks of the Subject Project;
- Environmental policies set by the government that pertains to the Subject Project;
- Average operational parameters of comparable waste treatment plants in China;
- Operation experience of the management of the Subject Project; and
- The economic conditions of China and principal business location.

10. VALUATION ASSUMPTIONS

Due to the changing environment in which the Subject Project is operating and its early stage of business, a number of operating assumptions have been prepared by the management of the Subject Project in order to sufficiently support our concluded opinion of the market value. The assumptions are listed as follows:

- The Subject Project will continue to manage and operate its waste treatment and power generation business in the PRC and fulfill all legal and regulatory requirements for the continuation of its business;
- There will be no material changes in politics, laws, rules or regulations where the Subject Project currently operates which may materially and adversely affect the operations of the waste treatment business;
- There will be no major changes in the current taxation law in the PRC where the Subject Project currently operates which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in the PRC will be complied with;
- There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operation of the Subject Project;
- Any financial statements, service contracts, schedule of assets and their condition or other relevant information as provided by the Subject Project and the Instructing Party in connection with the valuation is true, lawful, complete and credible; and
- The supply of household waste and quality, as determined by the heating value, to the Subject Project is stable and can ensure its need for waste incineration and power generation.

11. DISCLAIMER AND LIMITATION

Our valuation is subject to General Services Conditions attached at the rear of this report as Appendix. Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date(s), and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding ten (10) times of the amount of our agreed fee(s) for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

12. CONCLUSION

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory and Appraisal Limited (“CHFT”).

Based on the valuation methodology adopted, we are of the opinion that as at 30 April 2023, the result of the market value for the Subject Project is as follows:

Unit: RMB

Subject Project	Market Value
十堰市城區生活垃圾焚燒發電項目	464,000,000

We hereby certify that we have neither present nor prospective interests in the Instructing Party, the Subject Project or the value(s) reported.

Yours faithfully,
For and on behalf of
CHFT Advisory And Appraisal Ltd
Wang Xinhao, Ross *CFA*
Director

Note: Mr. Wang Xinhao, Ross is a CFA charterholder. He has over 13 years’ experience in providing the business valuation services in Hong Kong, the PRC, and Asian region.

Appendix One – Key Financial Projection of the Subject Project

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Revenue		51,917	59,571	67,671	76,238	78,733	81,309	83,970	86,719	89,558	92,491	95,521	98,650	101,883	
COGS and expense		-26,762	-28,516	-30,351	-32,271	-33,239	-34,236	-35,263	-36,321	-37,411	-38,533	-39,689	-40,880	-42,106	
EBITDA		25,155	31,055	37,320	43,967	45,493	47,073	48,707	50,398	52,147	53,958	55,832	57,770	59,777	
EBITDA margin		48.5%	52.1%	55.1%	57.7%	57.8%	57.9%	58.0%	58.1%	58.2%	58.3%	58.4%	58.6%	58.7%	
Depreciation expense		-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	-16,270	
EBIT		8,884	14,785	21,050	27,697	29,223	30,803	32,437	34,128	35,877	37,688	39,562	41,500	43,506	
EBIT margin		17.1%	24.8%	31.1%	36.3%	37.1%	37.9%	38.6%	39.4%	40.1%	40.7%	41.4%	42.1%	42.7%	
Interest expense		-15,107	-14,508	-13,746	-12,903	-12,056	-11,209	-10,361	-9,514	-8,667	-7,819	-6,972	-6,124	-5,277	
Corporate tax		-	-	-	-1,849	-2,146	-2,449	-5,519	-5,938	-6,481	-7,134	-7,804	-8,489	-9,191	
Net income		-6,223	277	7,305	12,945	15,021	17,145	16,557	18,675	20,730	22,734	24,786	26,887	29,039	
Net income margin		(12.0%)	0.5%	10.8%	17.0%	19.1%	21.1%	19.7%	21.5%	23.1%	24.6%	25.9%	27.3%	28.5%	

Unit: RMB'000

Year	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
Revenue	92,430	95,495	99,571	102,558	105,635	108,804	112,068	115,430	118,893	122,460	126,133	129,917	133,815	137,829	141,964
COGS and expense	-43,370	-44,671	-46,011	-47,391	-48,813	-50,277	-51,786	-53,339	-54,939	-56,587	-58,285	-60,034	-61,835	-63,690	-65,600
EBITDA	49,060	50,825	53,560	55,167	56,822	58,527	60,282	62,091	63,954	65,872	67,848	69,884	71,980	74,140	76,364
EBITDA margin	53.1%	53.2%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%	53.8%
Depreciation expense	-16,270	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157	-17,157
EBIT	32,790	33,667	36,403	38,010	39,665	41,369	43,125	44,933	46,796	48,715	50,691	52,726	54,823	56,982	59,207
EBIT margin	35.5%	35.3%	36.6%	37.1%	37.5%	38.0%	38.5%	38.9%	39.4%	39.8%	40.2%	40.6%	41.0%	41.3%	41.7%
Interest expense	-4,430	-3,582	-2,735	-1,888	-1,040	-193	-193	-193	-193	-193	-193	-193	-193	-193	-193
Corporate tax	-6,759	-7,179	-8,060	-8,663	-9,278	-9,904	-10,332	-10,772	-11,225	-11,692	-12,173	-12,668	-13,178	-13,704	-14,245
Net income	21,601	22,906	25,608	27,459	29,347	31,272	32,601	33,969	35,378	36,830	38,325	39,866	41,452	43,086	44,769
Net income margin	23.4%	24.0%	25.7%	26.8%	27.8%	28.7%	29.1%	29.4%	29.8%	30.1%	30.4%	30.7%	31.0%	31.3%	31.5%

Unit: RMB'000

Appendix Two – Calculation of Free Cashflow of the Subject Project

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
EBIT			8,884	14,785	21,050	27,697	29,223	30,803	32,437	33,267	34,589	36,357	38,187	40,081	42,040
Corporate tax			–	–	–	(1,849)	(2,146)	(2,449)	(5,519)	(5,938)	(6,481)	(7,134)	(7,804)	(8,489)	(9,191)
Depreciation expense			16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270	16,270
Change in working capital			(3,980)	(564)	(602)	(642)	(226)	(234)	(241)	(249)	(257)	(266)	(274)	(283)	(293)
Free cashflow			21,175	30,491	36,718	41,476	43,121	44,390	42,946	43,350	44,121	45,227	46,379	47,578	48,827
NPV			17,880	24,062	27,080	28,588	27,778	26,724	24,164	22,795	21,683	20,772	19,908	19,087	18,306

Unit: RMB'000

Year	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
EBIT	31,467	32,300	34,976	36,540	38,151	39,810	41,519	43,279	45,093	46,960	48,884	50,865	52,906	55,007	57,172
Corporate tax	(6,759)	(7,179)	(8,060)	(8,663)	(9,278)	(9,904)	(10,332)	(10,772)	(11,225)	(11,692)	(12,173)	(12,668)	(13,178)	(13,704)	(14,245)
Depreciation expense	16,270	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157	17,157
Change in working capital	734	(281)	(364)	(277)	(285)	(294)	(302)	(311)	(321)	(330)	(340)	(350)	(361)	(372)	(383)
Free cashflow	41,711	41,997	43,709	44,758	45,746	46,770	48,043	49,354	50,704	52,095	53,528	55,004	56,524	58,089	59,702
NPV	14,615	13,753	13,377	12,802	12,228	11,684	11,217	10,769	10,340	9,929	9,534	9,156	8,794	8,446	8,113

Unit: RMB'000

Item	Amount
Discount Rate	7.0%
Sum of NPV	463,583

*Unit: RMB'000**Note:*

- In this valuation, capital expenditure of the investment in the construction and equipment is estimated to be RMB179,653,000 in 2023, RMB275,908,000 in 2024 and RMB1,539,000 in 2025. As the scope of the Subject Project is fixed, no expansion capital expenditure is projected during the concession period. Nevertheless, the maintenance expenditure, including the checking and repairing of the Subject Project, is included in the projection of COGS and expense.
- The appraised value of the Subject Project is the sum of the NPV throughout the concession period, which amounted to approximately RMB464 million.

B. LETTER ON THE DISCOUNTED CASH FLOW FORECAST FROM ERNST & YOUNG

As the business valuation report set out in Appendix IIA of this circular is based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter received from the independent auditor of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the discounted cash flow forecast underlying the valuation on the business value of the Shiyan Project for the purpose of inclusion in this circular.



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
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**REPORT FROM THE AUDITOR OF THE COMPANY ON THE DISCOUNTED
CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF
十堰市城區生活垃圾焚燒發電項目**

To the Directors of Beijing Enterprises Environment Group Limited

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 16 June 2023 prepared by CHFT Advisory and Appraisal Ltd. in respect of 十堰市城區生活垃圾焚燒發電項目 (the “**Shiyan Project**”) as at 30 April 2023 is based. The valuation is set out in the circular of Beijing Enterprises Environment Group Limited (the “**Company**”) dated 16 June 2023 (the “**Circular**”) in connection with the establishment of the Project Company (as defined in the Circular) which will be responsible for the investment and financing, construction, operation and maintenance of the Shiyan Project. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under rule 14.61 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' responsibilities

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

Our 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 (the “**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 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.

Auditor's responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. 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.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Shiyang Project. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under rule 14.71 of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young*Certified Public Accountants*

Hong Kong

16 June 2023

C. LETTER FROM THE BOARD

As the business valuation report set out in Appendix IIA of this circular is based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from the Board on such valuation for the purpose of incorporation in this circular.



北京控股環境集團有限公司
BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

16 June 2023

To the Shareholders,

Dear Sirs,

MAJOR TRANSACTION

INVESTMENT AGREEMENT FOR OPERATING LICENSE OF SHIYAN URBAN DISTRICT HOUSEHOLD WASTE INCINERATION POWER GENERATION PROJECT

We refer to the business valuation report dated 16 June 2023 prepared by CHFT Advisory and Appraisal Ltd. in relation to the valuation on the business value of the Shiyang Project as at 30 April 2023 (the “**Valuation**”), the text of which is set out in Appendix IIA to the circular of the Company dated 16 June 2023 (the “**Circular**”). Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

The Valuation, which is prepared based on discounted cash-flow method, is regarded as a profit forecast (the “**Forecast**”) under Rule 14.61 of the Listing Rules.

We have considered the letter on the discounted cash flow forecast from our auditor, Ernst & Young, dated 16 June 2023 as set out in Appendix IIB to the Circular, which is addressed to the Board regarding, so far as the arithmetical accuracy of the calculations is concerned, whether the Forecast was properly compiled on the basis of the assumptions made by us.

We are of the opinion that the Forecast underlying the Valuation has been made by us after due and careful enquiry.

Yours faithfully,

By order of the Board

Beijing Enterprises Environment Group Limited

Ke Jian

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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), were as follows:

Long positions in the Shares and/or underlying shares of the Company:

Name of director	Number of Shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through a controlled corporation	Total	
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755 [#]	10,392,755	0.69

[#] The 8,792,755 Shares are held by Sunbird Holdings Limited, a company controlled by Mr. Ng Kong Fat, Brian and his associate.

Save as disclosed above, as at the Latest Practicable Date, there were no interests or short positions of the Directors or chief executives of the Company in the Shares and the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

- (b) As at the Latest Practicable Date, amongst others, each of Beijing Enterprises Group Company Limited* (北京控股集團有限公司) (“**BEGCL**”), Beijing Enterprises Group (BVI) Company Limited (“**BEBVI**”), BEHL and Idata Finance Trading Limited (“**Idata**”) is a substantial Shareholder disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO. Mr. Ke Jian, Ms. Sha Ning and Mr. Chen Xinguo are vice presidents of BEHL.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

- (c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest 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, any member of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up.
- (d) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. LITIGATION

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

5. COMPETING BUSINESS

As at the Latest Practicable Date, BEHL is also engaged in the solid waste treatment business and Mr. Ke Jian, Ms. Sha Ning and Mr. Chen Xinguo are vice presidents of BEHL.

Notwithstanding the fact that the Company and BEHL are both engaged in the solid waste treatment business, the Company considers that there has not been competition between the Company and BEHL in view of the following factors:

- (a) clear geographical delineation among solid waste treatment projects;
- (b) no competition in relation to the supply of solid waste and sale of electricity; and
- (c) a deed of non-competition has been provided by BEHL in favour of the Company in order to completely avoid any competition between the Company and BEHL.

As the Board is independent from the board of directors of BEHL, and the above directors do not control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of BEHL.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, or their respective associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group.

6. QUALIFICATIONS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
CHFT Advisory and Appraisal Ltd.	Independent professional valuer

As at the Latest Practicable Date, each of the above experts had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and each of the above experts had no interest, either directly or indirectly, in any assets which have been, since 31 December 2022, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular and are material:

- (a) the supply contract and the technical services contract dated 3 September 2021 entered into between Beihai Beikong Environment Technology Development Co., Ltd.* (北海北控環境科技發展有限公司), (“**Beihai Beikong**”, a subsidiary of BEHL) and Beijing Beikong Environment Protection Co., Ltd.* (北京北控環境保護有限公司), (“**Beikong Protection**”, a wholly-owned subsidiary of the Company) in relation to the supply of equipment, which are required for the household waste incineration power generation plant to be built by Beihai Beikong, and the provision of ancillary services and procurement services by Beikong Protection at contract prices of RMB151,085,840.71 and service fee of RMB1,433,962.26, respectively, details of which are disclosed in the announcement dated 3 September 2021 of the Company;
- (b) the cancellation of property transfer agreement dated 31 December 2021 entered into between the Company and Beijing Beikong Hong Chuang Technology Co., Ltd.* (北京北控宏創科技有限公司), a subsidiary of BEHL, in relation to the cancellation of the property transfer Agreement dated 14 February 2012 entered into between the same parties and the refund of down payment of RMB25,600,368 to the Company accordingly, details of which are disclosed in the announcement dated 31 December 2021 of the Company;

- (c) the industrial steam and condensate water supply contract dated 30 May 2023 entered into between Beifa Heli (Jining) Environmental Power Co., Ltd.* (北發合利(濟寧)環保電力有限公司), a non-wholly owned subsidiary of the Company, and Shandong Sun Paper Company Limited (山東太陽紙業股份有限公司), a connected person of the Company at the subsidiary level, in relation to the supply of industrial steam and condensate water at annual caps of fee settlement of HK\$32,000,000, HK\$90,000,000 and HK\$90,000,000 for the years ending 31 December 2023, 2024 and 2025, respectively, details of which are disclosed in the announcement dated 30 May 2023 of the Company; and
- (d) the Investment Agreement.

8. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up.

9. GENERAL

- (a) The registered office of the Company is situated at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (b) The share registrar of the Company is Tricor Tengis Limited, 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (c) The company secretary of the Company is Mr. Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.
- (d) This circular has been printed in English and Chinese, in the event of inconsistency, the English version shall prevail.

10. DOCUMENTS ON DISPLAY

Copies of the following documents are available on display on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.beegl.com.hk) for a period of 14 days from the date hereof:

- (a) the Investment Agreement;
- (b) the business valuation report of the Shiyan Project as set out in Appendix IIA to this circular; and
- (c) the letter from Ernst & Young on forecast underlying the valuation on the business value of the Shiyan Project, the text of which is set out in Appendix IIB to this circular.