

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Kangda International Environmental Company Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

**(I) MAJOR AND CONNECTED TRANSACTION —
THE DISPOSAL OF 31% EQUITY INTERESTS IN
ZHONGYUAN WATER GROUP CO., LTD;
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

ADVENT
宏智融資

Advent Corporate Finance Limited

A notice convening the extraordinary general meeting (the “EGM”) of the Company to be held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 December 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

A letter from the Board is set out on pages 5 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 32 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the EGM (i.e. no later than Monday, 25 December 2023 at 10:00 a.m (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish, and in such event, the instrument appointing a proxy will be deemed to be revoked.

8 December 2023

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DEFINITIONS

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

“Board”	the board of Directors
“Business Day”	a day other than a Saturday, Sunday or statutory holidays stipulated by the government of the PRC
“China Water Affairs”	China Water Affairs Group Limited, a company incorporated in Cayman Islands and continued in Bermuda with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 855)
“Company”	Kangda International Environmental Company Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 6136)
“Completion”	completion of the Disposal
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	a sum of RMB144,884,503.80, being the consideration for the Sale Capital
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Capital by the Vendor to the Purchaser pursuant to the terms and conditions of the Equity Transfer Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 December 2023 at 10:00 a.m. (or any adjournment thereof), for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 16 November 2023 entered into between the Vendor and the Purchaser in respect of the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors (except for Mr. Chau Kam Wing) to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Advent Corporate Finance Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than: (i) China Water Affairs and its associates; (ii) Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing and their associates (if any); and (iii) those who have a material interest in the Equity Transfer Agreement or any other person who is required by the Listing Rules to abstain from voting on the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder
“Latest Practicable Date”	4 December 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
“Menzhou City Sewage Treatment”	孟州市城市污水處理有限公司 (Mengzhou City Sewage Treatment Limited*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Target Company
“PRC”	the People’s Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	深圳金達環境控股有限公司 (Shenzhen Goldtact Environmental Holdings Limited*), a company established in the PRC with limited liability
“Sale Capital”	31% registered capital of the Target Company, which is beneficially owned by the Vendor as at the Latest Practicable Date

DEFINITIONS

“SFO”	Securities and Futures Ordinance
“Shanghai Silver Dragon”	上海銀龍股權投資有限公司 (Shanghai Silver Dragon Equity Investment Limited*), a company established in the PRC with limited liability, and a shareholder which is interested in 29% equity interest in the Target Company as at the Latest Practicable Date
“Share(s)”	share(s) of the Company of HK\$0.01 each
“Shareholder(s)”	holder(s) of issued Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Target Company”	中原水務集團有限公司 (Zhongyuan Water Group Co., Ltd.*), a company established in the PRC with limited liability, which is owned as to 40% by Zhongyuan Equity, 31% by the Vendor and 29% by Shanghai Silver Dragon, respectively as at the Latest Practicable Date
“Target Group”	Target Company and its subsidiaries
“Vendor”	重慶康達環保產業(集團)有限公司 (Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Zhongyuan Equity”	中原股權投資管理有限公司 (Zhongyuan Equity Investment Management Co., Ltd.*), a company established in the PRC with limited liability, and a shareholder which is interested in 40% equity interest in the Target Company as at the Latest Practicable Date
“Zhongyuan Water Fanxian Second Sewage Treatment”	中原水務范縣第二污水處理有限公司 (Zhongyuan Water Fanxian Second Sewage Treatment Limited*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Target Company
“Zhongyuan Water Fanxian Sewage Treatment”	中原水務范縣污水處理有限公司 (Zhongyuan Water Fanxian Sewage Treatment Limited*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Target Company

DEFINITIONS

“Zhongyuan Water (Xihua)”	中原水務(西華)污水處理有限公司 (Zhongyuan Water (Xihua) Sewage Treatment Limited*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Target Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

* *for identification purpose only*

LETTER FROM THE BOARD



KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

Executive Directors:

Mr. ZHAO Juanxian (alias, ZHAO Junxian)

(Co-Chairman)

Mr. LI Zhong *(Co-Chairman)*

Ms. LIU Yujie

Mr. DUAN Jerry Linnan *(Chief Executive Officer)*

Independent non-executive Directors:

Mr. CHAU Kam Wing

Mr. CHANG Qing

Mr. PENG Yongzhen

Registered office:

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business

in Hong Kong:

Suite 6409, 64/F

Central Plaza

18 Harbour Road

Wanchai, Hong Kong

8 December 2023

To the Independent Shareholders

Dear Sir or Madam,

**(I) MAJOR AND CONNECTED TRANSACTION —
THE DISPOSAL OF 31% EQUITY INTERESTS IN
ZHONGYUAN WATER GROUP CO., LTD;**

AND

(II) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 16 November 2023 in relation to the Equity Transfer Agreement.

The purpose of this circular is to provide you with, among other things, (i) further information on the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under the Listing Rules; and (v) a notice of the EGM.

LETTER FROM THE BOARD

THE DISPOSAL

On 16 November 2023 (after trading hours of the Stock Exchange), the Vendor, being an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 31% equity interests in the Target Company for a total consideration of RMB144,884,503.80.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out as follows:

- Date:** 16 November 2023
- Parties:** (i) the Vendor; and
(ii) the Purchaser

The Purchaser is a company established in the PRC with limited liability and is an investment holding company. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, (i) the Purchaser is an indirect non-wholly owned subsidiary of China Water Affairs, which in turn is a substantial shareholder of the Company, and an associated company of Shanghai Silver Dragon; and (ii) Shanghai Silver Dragon is one of the shareholders of the Target Company which is interested in 29% equity interests in the Target Company, and an indirect wholly-owned subsidiary of China Water Affairs as at the Latest Practicable Date. Hence, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be disposed of

Pursuant to the terms and conditions of the Equity Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 31% equity interests in the Target Company.

As at the Latest Practicable Date, the Target Company is owned as to 40% by Zhongyuan Equity, 31% by the Vendor and 29% by Shanghai Silver Dragon, respectively.

Consideration

The Consideration payable for the Sale Capital is RMB144,884,503.80, which shall be satisfied by the Purchaser by way of cash or bank transfer within twenty (20) Business Days after the date of Completion.

LETTER FROM THE BOARD

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms, after taking into account, among others, (i) the net asset value of the Target Company as at 31 December 2022; (ii) the valuation of 31% equity interest in the Target Company of approximately RMB142,100,000 as at 30 June 2023 based on the market value approach prepared by an independent valuer; and (iii) other factors as set out in the section headed "Reasons for and benefits of the Disposal" in this circular.

Conditions Precedent

Completion is subject to the following conditions having been fulfilled:

- (i) all necessary consents, permits and approvals required to be obtained on the part of the Target Company in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (ii) all necessary consents, permits and approvals required to be obtained on the part of the Purchaser in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (iii) all necessary consents, permits and approvals required to be obtained on the part of the Vendor in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (iv) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM approving the Equity Transfer Agreement and the transactions contemplated thereunder in compliance with the Listing Rules;
- (v) the representations and warranties given by the Vendor under the Equity Transfer Agreement are true and accurate in all respects from the date of execution of the Equity Transfer Agreement up to the date of Completion, and that the undertakings and obligations under the Equity Transfer Agreement to be performed by the Vendor on or before the date of Completion have been fulfilled; and
- (vi) without limitation of conditions (i) to (v) above, all necessary consent approvals, permits and authorisation to be obtained from PRC governing authorities or other appropriate authorities in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained (if necessary).

All conditions precedent set out above are incapable of being waived by the parties to the Equity Transfer Agreement. In the event that the conditions precedent under the Equity Transfer Agreement have not been fully fulfilled on or before 31 December 2023 (or such later date as may be agreed between the parties thereto), the Equity Transfer Agreement shall cease and determine and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

As at the Latest Practicable Date, save for conditions (ii) and (iii) above, none of the above conditions has been fulfilled.

LETTER FROM THE BOARD

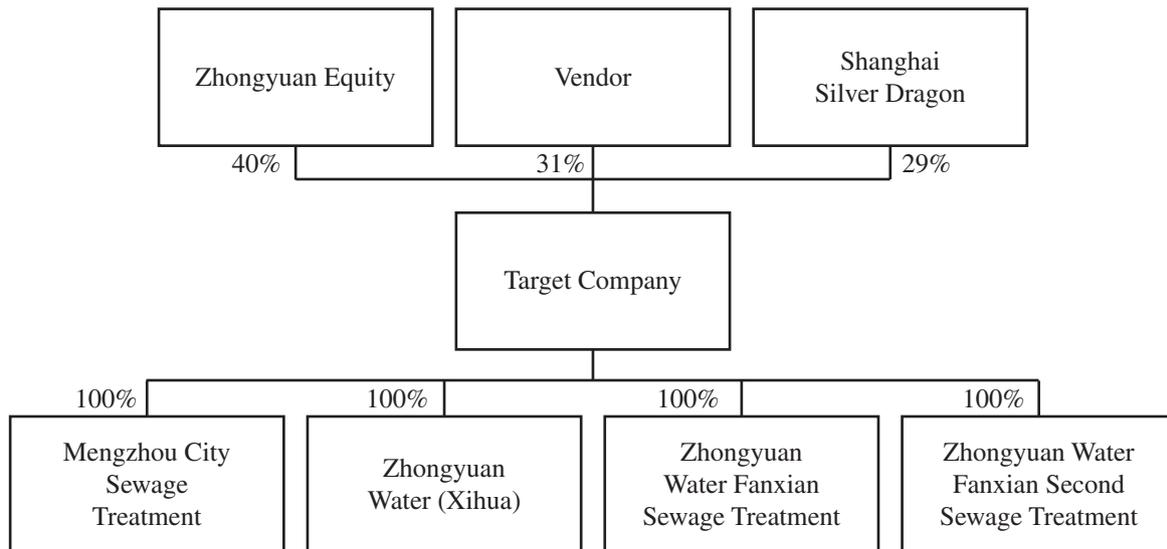
Completion

Completion shall take place within ten (10) Business Days after the fulfilment of all the conditions precedent of Equity Transfer Agreement or such later date as the Purchaser and the Vendor may agree.

INFORMATION ON THE TARGET GROUP

The Target Company is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Target Company is owned as to 40% by Zhongyuan Equity, 31% by the Vendor and 29% by Shanghai Silver Dragon, respectively. It is principally engaged in the construction, operation and management of environment protection and infrastructure projects and is the holding company of a number of subsidiaries/associate companies established in the PRC with limited liability.

The following diagram illustrates the simplified shareholding structure of the Target Company and its operating subsidiaries as at the Latest Practicable Date.



Sewage Water Treatment Services

Mengzhou City Sewage Treatment is principally engaged in the provision of sewage treatment services and the sale of self-produced sludge.

Zhongyuan Water (Xihua) is principally engaged in the provision of sewage collection and treatment services, maintenance of sewage treatment facilities services, and the development and utilisation of water services.

Each of Zhongyuan Water Fanxian Sewage Treatment and Zhongyuan Water Fanxian Second Sewage Treatment is principally engaged in the provision of sewerage collection, sewage treatment and related technical services.

LETTER FROM THE BOARD

Financial information of the Target Group

Set out below is the financial information of the Target Group based on the audited consolidated financial statements of the Target Group for the two years ended 31 December 2022 prepared according to the General Accepted Accounting Principles of the PRC:

	For the year ended 31 December 2021	For the year ended 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	54,637	55,613
Profit/(loss) before taxation	4,578	3,135
Profit/(loss) after taxation	4,864	3,435
	As at 31 December 2021	As at 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	657,264	649,123
Total liabilities	188,034	176,457
Net assets	469,230	472,666

According to the unaudited management accounts of the Target Group, the net assets of the Target Group as at 30 June 2023 is approximately RMB475,898,000.

INFORMATION ON THE PURCHASER

The Purchaser is a company established in the PRC with limited liability and is an investment holding company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser is owned as to approximately 94.09% by China Water Affairs and approximately 5.91% by other independent third parties as at the Latest Practicable Date.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

The carrying amount of the investment in the Target Group at the Latest Practicable Date is approximately RMB147,598,000, representing the Group's share of net assets of the Target Group under the equity method of accounting, less any impairment loss. Subject to further audit procedures to be performed by the auditor of the Company, the Group is expected to record (i) a loss from the Disposal of approximately RMB2,714,000, which is calculated with reference to the carrying amount of the investment in the Target Group and the Consideration; (ii) a decrease in the total assets of the Group of approximately RMB3,598,000, being the difference between the estimated net proceeds from the Disposal and the carrying amount of the investment in the Target Group; and (iii) no impact on the total liabilities of the Group from the Disposal. The actual financial effect of the Disposal is subject to change upon actual Completion and review and final audit by the auditor of the Company.

The net proceeds from the Disposal, after deducting the expenses directly attributable thereto, will amount to approximately RMB144,000,000. It is intended that the net proceeds will be used for general working capital of the Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the design, construction, operation and maintenance of wastewater treatment plants, reclaimed water treatment plants, water distribution plants, sludge treatment plants and other municipal infrastructure in the PRC. The Vendor is an indirect wholly-owned subsidiary of the Group, and is principally engaged in investment in wastewater treatment plants and construction of municipal infrastructure in the PRC.

The Board believes that the Disposal would allow the Group to realise its non-controlling investment in the Target Group and to improve the Group's liquidity and better allocate its resources for the development of its existing business and/or investments in other business opportunities. Having regard to the aforementioned, the Directors (including members of the Independent Board Committee whose view are set out in the Letter from the Independent Board Committee in this circular; but excluding, Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing, who have abstained from voting on the relevant resolution(s) of the Board approving the Equity Transfer Agreement and the transactions contemplated thereunder) believe that the terms of the Disposal (including the Consideration) are on normal commercial terms, fair and reasonable, and the Disposal is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the Disposal is more than 25% but all of the percentage ratios are less than 75%, the entering into of the Equity Transfer Agreement constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholder's approval requirements thereunder.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, (i) the Purchaser is an indirect non-wholly owned subsidiary of China Water Affairs, which in turn is a substantial shareholder of the Company, and an associated company of Shanghai Silver Dragon; and (ii) Shanghai Silver Dragon is one of shareholders of the Target Company which is interested in 29% equity interest in the Target Company, and an indirect wholly-owned subsidiary of China Water Affairs as at the Latest Practicable Date. Hence, the Disposal constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

As at the Latest Practicable Date, each of Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie, each being an executive Director, and Mr. Chau Kam Wing, being an independent non-executive Director, is also a director of China Water Affairs. Hence, each of Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing, being a common director of both the Company and China Water Affairs, had abstained from voting on the relevant resolution(s) of the Board approving the Equity Transfer Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Save as disclosed, none of the Directors has material interest in the Disposal and hence no other Director is required to abstain from voting on the relevant resolution(s) of the Board approving the Equity Transfer Agreement and the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors (except for Mr. Chau Kam Wing) has been formed to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. Advent Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

EGM

The notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

The EGM will be convened and held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 December 2023 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the transactions contemplated thereunder. Voting at the EGM will be taken by poll.

A form of proxy for the EGM is enclosed in this circular. Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the EGM (i.e. no later than Monday, 25 December 2023 at 10:00 a.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish, and in such event, the instrument appointing a proxy will be deemed to be revoked.

An aggregate of 640,990,000 Shares, representing 29.96% of the total issued share capital of the Company, is held by (i) Sharp Profit Investments Limited (which was beneficially interested in 608,990,000 Shares (excluding the interest in the exchangeable bonds issued by BPEA V Holding (5) Limited to Sharp Profit Investments Limited on 8 May 2020)), being a wholly-owned subsidiary of China Water Affairs and (ii) Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing, each being a common director of both the Company and China Water Affairs. Accordingly, Sharp Profit Investments Limited, Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing and their respective associates are considered to have material interest in the Disposal, and are required to abstain from voting on the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder. Save as disclosed and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder or any of their associates has a material interest in the Equity Transfer Agreement and is required to abstain from voting at the EGM.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 December 2023 to Wednesday, 27 December 2023 (both days inclusive) for the purpose of determining Shareholder's right to attend and vote at the EGM.

In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 19 December 2023.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 13 to 14 of this circular, which contains its recommendation to the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser set out on pages 15 to 32 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Equity Transfer Agreement and the transactions contemplated thereunder, and the principal factors and reasons considered by it in arriving at its opinions.

In view of the reasons as set out in the paragraph headed "Letter from the Board — Reasons for and benefits of the Disposal" above, the Directors (including members of the Independent Board Committee whose views are set out in the Letter from the Independent Board Committee in this circular; but excluding, Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing, who have abstained from voting on the relevant resolution(s) of the Board approving the Equity Transfer Agreement and the transactions contemplated thereunder) are of the view that although the entering into of the Equity Transfer Agreement is not in the ordinary and usual course of business of the Group, the Equity Transfer Agreement is on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

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

Yours faithfully

Kangda International Environmental Company Limited

Mr. Li Zhong

Co-Chairman



KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

8 December 2023

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION —
THE DISPOSAL OF 31% EQUITY INTERESTS IN
ZHONGYUAN WATER GROUP CO., LTD**

We refer to the circular of the Company dated 8 December 2023 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders how to vote in relation to the ordinary resolution to approve the Equity Transfer Agreement and the transactions contemplated thereunder to be proposed at the EGM. Details of the Equity Transfer Agreement and the transactions contemplated thereunder are set out in the “Letter from the Board” contained in the Circular.

Advent Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 15 to 32 of the Circular. Your attention is also drawn to the Letter from the Board set out on pages 5 to 12 of the Circular and the additional information set out in the appendices to this Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the Equity Transfer Agreement and the advice from the Independent Financial Adviser, we consider that although the entering into of Equity Transfer Agreement is not in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Kangda International Environmental Company Limited
CHANG Qing **PENG Yongzhen**
Independent non-executive *Independent non-executive*
Director *Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Advent Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Disposal for the purpose of inclusion in this circular.



Advent Corporate Finance Limited
Unit 05–07, 19/F, Tower 6
The Gateway, 9 Canton Road
Tsim Sha Tsui, Kowloon,
Hong Kong

8 December 2023

To: The Independent Board Committee and the Independent Shareholders of Kangda International Environmental Company Limited

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 8 December 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 November 2023, the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 31% equity interests in the Target Company at the Consideration of RMB144,884,503.80.

With reference to the Board Letter, the Disposal constitutes a major and connected transaction of the Company and is therefore subject to reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Chang Qing and Mr. Peng Yongzhen, being all of the independent non-executive Directors (except for Mr. Chau Kam Wing who is considered to have material interest in the Disposal, being a common director of both the Company and China Water Affairs), has been formed to advise the Independent Shareholders on (i) whether the terms of the Disposal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group so far as the Independent Shareholders are concerned; and (iii) how to vote in respect of the resolution to approve the Equity Transfer

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Agreement and the transactions contemplated thereunder at the EGM. We, Advent Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

Apart from the independent financial adviser roles in connection with the transactions disclosed in the Circular, we have not acted as financial adviser or in any capacity to the Group, the Purchaser and its respective connected persons in the past two years immediately preceding the Latest Practicable Date. We did not have any relationships or interests between us, the Group, the Purchaser and its respective connected persons within the past two years from the Latest Practicable Date under the Listing Rules that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal. We consider ourselves independent to form our opinion in respect of the Disposal. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions disclosed in the Circular.

BASIS OF OUR OPINION

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

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Company, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report as set out in Appendix I to the Circular (the "**Valuation Report**"). Since we are not experts in the valuation of assets or business, we have relied solely upon the Valuation Report for the valuation of 31% equity interest in the Target Company as at 30 June 2023 (the "**Valuation**").

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The Circular, for which the Directors collectively and individually accept full responsibility for the information contained therein, includes particulars given in compliance with the Listing Rules for the purpose of giving information relating to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the design, construction, operation and maintenance of waste water treatment plants (the “WTPs”), reclaimed water treatment plants (the “RWTPs”), water distribution plants (the “WDPs”), sludge treatment plants (the “STPs”) and other municipal infrastructure in the PRC.

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Set out below is the consolidated financial information of the Group for the two years ended 31 December 2022 and for the six months ended 30 June 2023, as extracted from the Company’s annual report for the year ended 31 December 2021, the Company’s annual report for the year ended 31 December 2022 (the “**2022 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2023 (the “**2023 Interim Report**”) respectively:

	For the six months ended 30 June 2023	For the year ended 31 December 2022	For the year ended 31 December 2021	Change from 2021 to 2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>%</i>
Revenue from contracts				
with customers	1,093.1	2,896.6	2,919.0	(0.8)
— <i>Revenue from operating services</i>	<i>619.0</i>	<i>1,264.5</i>	<i>1,200.5</i>	<i>5.3</i>
— <i>Revenue from construction services</i>	<i>100.0</i>	<i>893.2</i>	<i>1,008.5</i>	<i>(11.4)</i>
— <i>Financial income</i>	<i>374.1</i>	<i>735.9</i>	<i>710.0</i>	<i>3.6</i>
Gross profit	544.8	1,268.6	1,335.3	(5.0)
Profit for the period/year	84.7	240.0	418.2	(41.9)

With reference to the 2023 Interim Report, the Group’s principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement. The scope of Urban Water Treatment includes the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the operation and maintenance of wastewater treatment facilities entrusted by governments (the “**O&M**”). The Group’s business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of Build-Operate-Transfer (the “**BOT**”), Transfer-Operate-Transfer (the “**TOT**”), Public-Private-Partnership (the “**PPP**”), Build-Own-Operate (the “**BOO**”), Engineering Procurement Construction (the “**EPC**”) and O&M. The Group had 101 service concession arrangement projects under operation while its operational treatment capacity was over 4 million tons per day as at 30 June 2023.

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As illustrated in the above table, the Group's revenue from contracts with customers for the year ended 31 December 2022 ("FY2022") decreased slightly by approximately 0.8% as compared to that for the year ended 31 December 2021 ("FY2021"); and the Group's revenue from contracts with customers for the six months ended 30 June 2023 ("1H2023") further decreased by approximately 34.2% as compared to that for the corresponding period in 2022. With reference to the 2022 Annual Report, the aforesaid decreases in revenue in FY2022 were mainly due to the decrease in construction revenue which was mainly attributable to the decrease in the number of projects during the main construction period of Urban Water Treatment services, the completion of partial existing EPC projects of Water Environment Comprehensive Remediation services, and the commencement of operation of PPP projects of Rural Water Improvement services. With reference to the 2023 Interim Report, the aforesaid decreases in revenue in 1H2023 were mainly due to (i) the decrease in construction revenue which was mainly attributable to the decrease in the number of projects during the main construction period of Urban Water Treatment services, the execution of newly signed EPC projects of Water Environment Comprehensive Remediation services, and commenced operation of PPP projects of Rural Water Improvement services; and (ii) the decrease in operation revenue which was mainly attributable to the decrease in one-off operation revenue of some projects of Urban Water Treatment.

The Group's profit was approximately RMB84.7 million for 1H2023, represented a decrease of approximately 58.1% as compared to that for the corresponding period in 2022. With reference to the 2023 Interim Report, such decrease in profit was mainly due to (i) the decrease in revenue as mentioned above; and (ii) the increase in finance costs as a result of the increase in the proportion of long-term interest-bearing bank and other borrowings which bore a relatively higher rate than the short-term one.

Information on the Vendor

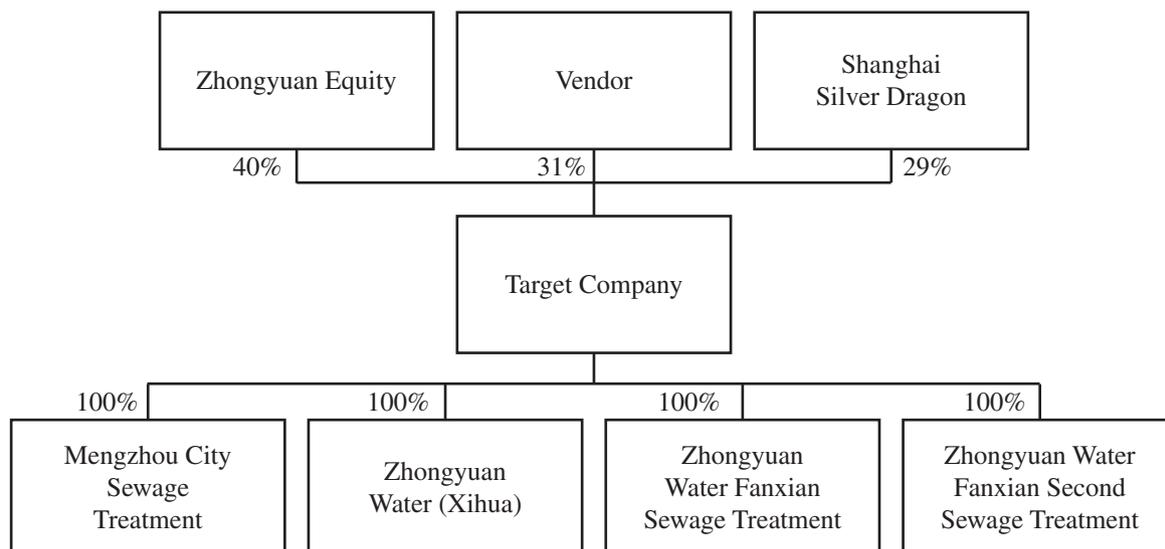
With reference to the Board Letter, the Vendor is an indirect wholly-owned subsidiary of the Company established in the PRC with limited liability. As at the Latest Practicable Date, it is principally engaged in investment in WTPs and construction of municipal infrastructure in the PRC.

Information on the Target Company

With reference to the Board Letter, the Target Company was established in the PRC with limited liability and is principally engaged in the construction, operation and management of environment protection and infrastructure projects and is the holding company of a number of subsidiaries/associate companies established in the PRC with limited liability. As at the Latest Practicable Date, the Target Company is owned as to 40% by Zhongyuan Equity, 31% by the Vendor and 29% by Shanghai Silver Dragon, respectively.

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The following diagram illustrates the simplified shareholding structure of the Target Company and its operating subsidiaries as at the Latest Practicable Date.



Mengzhou City Sewage Treatment is principally engaged in the provision of sewage treatment services and the sale of self-produced sludge. Zhongyuan Water (Xihua) is principally engaged in the provision of sewage collection and treatment services, maintenance of sewage treatment facilities services, and the development and utilisation of water services. Each of Zhongyuan Water Fanxian Sewage Treatment and Zhongyuan Water Fanxian Second Sewage Treatment is principally engaged in the provision of sewerage collection, sewage treatment and related technical services.

Set out below is the audited consolidated financial information of the Target Company for the two years ended 31 December 2022, as extracted from the Board Letter:

	For the year ended 31 December 2022	For the year ended 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	55,613	54,637
Profit before taxation	3,135	4,578
Profit after taxation	3,435	4,864

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	As at 31 December 2022 <i>RMB'000</i> <i>(audited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(audited)</i>
Total assets	649,123	657,264
Total liabilities	176,457	188,034
Net assets	472,666	469,230

With reference to the Board Letter, the Target Company recorded unaudited net asset value of approximately RMB475,898,000 as at 30 June 2023.

Information on the Purchaser

With reference to the Board Letter, the Purchaser is a company established in the PRC with limited liability and is an investment holding company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser is owned as to approximately 94.09% by China Water Affairs, which in turn is a substantial shareholder of the Company, and approximately 5.91% by other independent third parties as at the Latest Practicable Date. Hence, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules.

Reasons for and benefits of the Disposal

With reference to the Board Letter, the Directors had considered various factors including the opportunity to realise the non-controlling investment in the Target Group and to improve the Group's liquidity and better allocate the resources for the development of the Group's existing business and/or investments in other business opportunities. Details of the reasons for and benefits of the Disposal are set out in the section headed "Reasons for and benefits of the Disposal" of the Board Letter.

As noted from the 2023 Interim Report, as at 30 June 2023, the Group's cash and bank balances was approximately RMB169.9 million while its total interest-bearing bank and other borrowings were approximately RMB9,775 million in aggregate, with a gearing ratio of approximately 69.6%. Given the uncertainty of the further increase in interest rate for the borrowings, we concur with the Directors that (i) the Disposal represents a good opportunity for the Group to realise its investment in the Target Company while improving the liquidity of the Group; and (ii) although the Disposal is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

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Principal terms of the Disposal

Summarised below are the principal terms of the Disposal under the Equity Transfer Agreement, details of which are set out under the section headed “The Equity Transfer Agreement” of the Board Letter.

Date

16 November 2023

Parties

- (1) The Vendor; and
- (2) The Purchaser

Asset to be disposed of

Pursuant to the terms and conditions of the Equity Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 31% equity interests in the Target Company.

Consideration and payment terms

The Consideration payable for the Sale Capital is RMB144,884,503.80, which shall be satisfied by the Purchaser by way of cash or bank transfer within twenty (20) Business Days after the date of Completion.

With reference to the Board Letter, the Consideration was arrived at after arm’s length negotiations between the Vendor and the Purchaser on normal commercial terms, after taking into account, amongst other things: (i) the net asset value of the Target Company as at 31 December 2022; (ii) the draft valuation of 31% equity interest in the Target Company of approximately RMB142,100,000 as at 30 June 2023 based on the market value approach prepared by an independent valuer; and (iii) other factors as set out in the section headed “Reasons for and benefits of the Disposal” in the Board Letter.

Subject to fulfilment of the conditions precedent under the Equity Transfer Agreement, Completion shall take place within 10 Business Days after the fulfillment of all the conditions precedent of the Equity Transfer Agreement or such later date as the Purchaser and the Vendor may agree.

Valuation of the Target Company

According to the information provided by the Company, the Consideration was determined principally based on the Valuation prepared by an independent valuer of the 31% equity interests of the Target Company (“**31% Equity Interests**”) of approximately RMB142,100,000 as at 30 June 2023, which is the result of: (i) the unaudited net book value attributed to common equity holders of approximately RMB476,125,000 of the Target Company as at 30 June 2023; (ii) the valuation multiple (“**P/B Multiple**”) of

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approximately 1.09 times which make reference to the market average of price-to-book ratio (the “**P/B Ratios**”) of comparable companies (the “**Comparable Companies**”); and (iii) the discount for lack of marketability (“**DLOM**”) of approximately 11.89% to adjust the equity value of the Target Company.

In order to comprehensively assess the Valuation of the 31% Equity Interests, we cross-reference with the market average of P/B Ratios of Comparable Companies and review the basis of the Valuation of the 31% Equity Interests. Details of the assessments are set out in the sections below.

Competency of the independent valuer

We have performed due diligence on the qualification of the independent valuer, namely Vincorn Consulting and Appraisal Limited (the “**Valuer**”), and the competency and experience of the person in charge of the Valuation Report. As confirmed by the Valuer, (i) it is registered as a firm regulated by Royal Institution of Chartered Surveyors (“**RICS**”); and (ii) the signatory of the Valuation Report are Mr. Vincent Cheung and Mr. Freddie Chan. Mr. Vincent Cheung is a chartered surveyor and registered valuer, and a fellow of RICS, a fellow of the Hong Kong Institute of Surveyors as well as a Registered Professional Surveyor (General Practice). Mr. Freddie Chan is a registered valuer, and a member of Chartered Financial Analyst Institute (CFA), Association of Chartered Certified Accountants (ACCA), Financial Risk Manager (FRM) as well as MRICS. Mr. Vincent Cheung and Mr. Freddie Chan have extensive experience in valuation and corporate advisory business, providing a wide range of valuation and advisory services to numerous listed and private companies in different industries in Asia Pacific region and overseas countries for over 26 years and 14 years respectively.

Furthermore, we have reviewed the engagement letter between the Company and the Valuer, and we are satisfied that the scope of work performed by the Valuer is appropriate to perform the Valuation. We are also confirmed by the Valuer that (i) there is no other arrangement whereby the Valuer will receive any fee or benefit from the Group and its associates apart from the normal professional fees payable to it in connection with the Valuation and due diligence work in relation to the Target Company; and (ii) it is not connected with the Group and that none of its partners, directors or officers is an officer or servant or proposed director of the Group, its controlling shareholder or any affiliated company of the Group.

In light of the above, we are not aware of any matters that would cause us to question the Valuer’s competence and independence, and thus we are of the view that the Valuer has sufficient expertise and is independent to perform the Valuation for the Target Company.

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Basis, assumption and methodology of the Valuation

We have reviewed the Valuation Report and are given to understand the basis, assumptions and methodology taken into consideration in the Valuation.

We are given to understand that the Valuation has been prepared in accordance with the International Valuation Standards effective from 31 January 2022 published by the International Valuation Standards Council, where applicable.

The Valuation Report was prepared by the Valuer by adopting market approach. As confirmed by the Valuer, the Valuer considered three generally accepted business enterprise appraisal approaches to value, namely, market approach, cost approach and income approach. Upon our further enquiry with the Valuer, we understood that:

- (i) Market approach values assets based on comparison with recent market transactions of selling similar assets. Market approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. As advised by the Company, the Target Company is expected to sustain its existing business operations in the foreseeable future. Therefore, it is considered that market approach is the most optimal approach for valuing the 31% Equity Interest.
- (ii) Cost approach values assets with reference to the accumulating costs that would incur in order to replace or reproduce the assets in its current condition. This approach is not considered to be an appropriate approach to valuing income-generating assets as it generally does not capture the future expected returns to the asset. This approach also disregards the future profit potentials of the Target Company. Therefore, cost approach is not appropriate to assess the value of the 31% Equity Interest and is not adopted in the valuation.
- (iii) Income approach values assets with reference to the capitalized value of income, cash flows or cost savings that could hypothetically be earned or achieved by a market participant owing the assets. The principle of this approach is that the value of the asset can be measured by the present worth of the economic benefits to be received over the asset life. This approach estimates the future economic benefits and discounts these benefits to their present value using an appropriate discount rate for all risks associated with realizing those benefits. It is considered that the income approach is not optimal to value the 31% Equity Interest as this approach involves financial forecast information and the adoption of more assumptions than the other two approaches, not all of which can be easily justified or ascertained.

The Valuation has been made on the assumption that, inter alia, (i) there will be no material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company; (ii) the conditions in which the Target Company is operated, and which are material to revenue and costs of the businesses of the Target Company will have no material change; (iii) competent management, key personnel and technical staff will be maintained to support

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the ongoing operation and development of the Target Company; (iv) all licenses and permits that is essential for the operation of the Target Company can be obtained and are renewable upon expiry; and (v) there are no hidden or unexpected conditions associated with the businesses valued that might adversely affect the reported value.

During the entire review process, we did not note any unusual matters in relation to the Valuation Report nor did we have any disagreements on the methodologies and assumptions used in the Valuation Report. In addition, based on our independent research, we note that the above basis and assumptions are commonly adopted in the valuation performed for similar transactions of other listed companies on the Stock Exchange.

Based on the above, we are of the view that the basis, assumptions and methodologies adopted in arriving at the Valuation are fair and reasonable. Hence, we consider it reasonable that the Consideration is determined with reference to, among other things, the Valuation Report.

Evaluation of the cross-reference with Comparable Companies

In order to review the market assessment of the Target Group, we have reviewed the adopted valuation methodology of P/B Multiple and conducted our own search on the comparable companies of the Target Group for confirmation purposes, details of which are illustrated in the following sub-sections.

Assessment of valuation approach: P/B Ratios

As stated in the section headed “Information on the Target Company” in this letter, the earnings of the Target Group have decreased by approximately RMB1.4 million or 29.4% from approximately RMB4.9 million to RMB3.4 million for the two years ended 31 December 2021 and 2022. The Target Company also experienced a net loss for the six months ended 30 June 2022 while it had a net profit for the six months ended 30 June 2023. Given the volatility of the earnings recorded, price-to-earnings ratio may not be representative given that it would be only based on the prevailing full year results. The current unstable earning cannot reasonably represent its sustainable profit in the future.

Although the total income of the Target Group is relatively stable compared with its earning, price-to-sales ratio does not take the cost structure into account, which may not be comprehensive to reflect such company-specific features across comparable companies. In turn it is less representative than the P/B Ratios.

On the contrary, the net asset value of the Target Group stayed between approximately RMB469.2 million and RMB475.9 million in the recent two and a half years. Given that the business of the Target Group is capital intensive in nature and the value is driven by the amount of its net assets, we are in the opinion that it is a preferred approach as it is stable and representative for valuation purposes as compared to price-to-earnings or price-to-sales approaches.

As a result, we concur that price-to-book ratio is a preferred approach as the net asset value of the Target Group is relatively consistent than its earning.

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Independent search on comparable companies

We have conducted an independent search on the Comparable Companies, on a best effort basis, to cross-check the results provided by the Valuer.

We have assessed a selection of Comparable Companies. We are of the view that the selection criteria are fair and reasonable as the criteria cover the peers engaged in the principal business in the PRC similar to the Target Group. Also, by going through the companies whose shares are listed on the Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange, we conclude that the selection is exhaustive, fair and reasonable and representable.

On a best effort basis, we have conducted an independent search on the comparable companies based on the selection criteria imposed by the Valuer. The result of our selection is identical to the companies under the Comparable Companies. Therefore, we concur that the selection criteria for the Comparable Companies are appropriate and the companies under the Comparable Companies are exhaustive, fair and reasonable and representable.

Details of the selection criteria of the Comparable Companies imposed by the Valuer are as follows:

- being listed in Hong Kong or Mainland China (e.g. Stock Exchange (“SEHK”), Shanghai Stock Exchange (“SHSE”) and Shenzhen Stock Exchange (“SZSE”);
- deriving sales mainly in the sewage and wastewater treatment business which contributed more than 50% of the revenue in the latest financial year;
- being based and operating in Mainland China;
- having at least two years of operating histories and positive net book value based on latest information prior to the valuation date; and
- financial information of the comparable companies is available to the public.

The table below illustrates the P/B Ratios of the Comparable Companies of our independent search, which fulfill our selection criteria stated above.

Stock Exchange	Stock Code	Company Name	Principal Business	Market Capitalisation (RMB) (Note 1)	Net Assets (RMB) (Note 1)	P/B Ratios (Note 1)
SEHK	371	Beijing Enterprises Water Group Limited	Provision of sewage and reclaimed water treatment and construction services	15,586,329,333	53,393,462,617	0.29

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Stock Exchange	Stock Code	Company Name	Principal Business	Market Capitalisation (RMB) (Note 1)	Net Assets (RMB) (Note 1)	P/B Ratios (Note 11)
SEHK	1065	Tianjin Capital Environmental Protection Group Company Limited	Provision of sewage water processing and sewage treatment plant construction	851,588,785	9,791,186,000	0.09
SEHK	1857	China Everbright Water Limited	Provision of municipal waste water treatment, industrial waste water treatment, water supply, reusable water, sludge treatment and disposal, sponge city construction, river-basin ecological restoration, waste water source heat pump, leachate treatment, research and development of water environment technologies and engineering construction services	3,181,722,711	12,380,691,589	0.26
SEHK	3768	Kunming Dianchi Water Treatment Co., Ltd.	Provision of waste water treatment services	216,089,383	4,825,171,000	0.04
SEHK	6136	Kangda International Environmental Company Limited	Provision of urban water treatment services	519,935,607	5,828,726,000	0.09
SEHK	6839	Yunnan Water Investment Co., Limited	Provision of waste water treatment project construction and operation services	105,375,055	4,215,341,000	0.02
SHSE	600168	Wuhan Sanzhen Industry Holding Co., Ltd	Provision of sewage treatment services	4,363,853,600	5,657,984,184	0.77
SHSE	600187	Heilongjiang Interchina Water Treatment Co., Ltd	Provision of sewage treatment services and environmental protection engineering and technical services	4,421,760,200	3,507,060,651	1.26

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Stock Exchange	Stock Code	Company Name	Principal Business	Market Capitalisation (RMB) (Note 1)	Net Assets (RMB) (Note 1)	P/B Ratios (Note II)
SHSE	601158	Chongqing Water Group Co., Ltd.	Provision of water supply services and waste water treatment services	26,592,000,000	16,602,946,025	1.60
SHSE	601368	Guangxi Nanning Waterworks Co., Ltd.	Provision of sewage treatment services and water supply services	4,776,884,300	4,638,502,012	1.03
SHSE	603603	Poten Environment Group Co., Ltd.	Provision of urban water environment solutions like water supply, treatment of domestic sewage and water recycling and emerging urban water environment services	3,341,310,500	1,911,366,093	1.75
SHSE	603759	Haitian Water Group Co., Ltd.	Provision of sewage treatment services and water supply services	3,948,048,000	2,587,317,903	1.53
SHSE	603797	Guangdong Liantai Environmental Protection Co., Ltd.	Provision of sewage treatment services	3,265,284,000	3,068,846,715	1.06
SHSE	603817	Fujian Haixia Environmental Protection Group Co., Ltd.	Provision of sewage treatment services	3,318,362,100	2,848,678,317	1.16
SHSE	603903	CSD Water Service Co., Ltd.	Provision of urban sewage treatment, industrial park and industrial sewage treatment, groundwater remediation, sludge treatment and disposal and other comprehensive environmental treatment services	2,512,343,700	1,795,795,568	1.40
SHSE	688466	GreenTech Environmental Co., Ltd.	Provision of service in relation to the engineering, construction, operation management and financing for advanced water treatment and waste-to-resources using membrane technologies	2,338,030,300	1,151,832,217	2.03

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Stock Exchange	Stock Code	Company Name	Principal Business	Market Capitalisation (RMB) (Note 1)	Net Assets (RMB) (Note 1)	P/B Ratios (Note 1)
SZSE	300388	Cecep Guozhen Environmental Protection Technology Co., Ltd.	Provision of full-cycle municipal and industrial wastewater treatment solutions such as comprehensive treatment of water environment, municipal sewage, comprehensive treatment of water environment in villages and towns, and comprehensive services of industrial water system	4,781,023,200	4,277,331,438	1.12
SZSE	300422	Guangxi Bossco Environmental Protection Technology Co., Ltd.	Provision of comprehensive environmental solution in industrial wastewater treatment, pulping and papermaking and the breton waste aspects	3,135,242,700	2,506,289,476	1.25
SZSE	300774	BGT Group Co., Ltd.	Provision of integrated water treatment solution and services	4,569,936,800	1,593,423,020	2.87
Minimum P/B Ratio						0.02
Maximum P/B Ratio						2.87
Average P/B Ratio						1.03

Notes:

- (I) The market capitalisations of the Comparable Companies are calculated based on their respective closing share prices and numbers of issued shares as at 15 November 2023. The consolidated net assets attributable to owners are extracted from the respective latest published financial reports of the Comparable Companies.
- (II) The P/B Ratios of the Comparable Companies are calculated based on their respective market capitalisations and published net asset values stated in Note (I).

As shown above, the P/B Ratios of the Comparable Companies ranged from 0.02 times to 2.87 times with an average of 1.03 times as at the Latest Practicable Date. Given that the P/B Multiple to determine the 31% Equity Interests is approximately equal to 1.09 times which is slighter higher than the market average P/B Ratios and within the market range, the Consideration is therefore considered to be fair and reasonable to the Group.

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Discount for lack of marketability (“DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

It is noted from the Valuer that the Valuer adopted a DLOM of approximately 11.89% to adjust the equity value of the Target Company based on their understanding of the liquidity of the stock with reference to option pricing model to estimate the marketability discount. An investor may purchase an at-the-money put option of similar stock to hedge the current value of the underlying stock or acquiring an at-the-money put option of the underlying shares, so that the investor can dispose the shares by exercising the option. As such, the Valuer estimated the discount by assessing the additional cost to the investor for investing in non-listed shares with liquidity comparable with listed shares. As the time the share of stock in a privately held company become readily marketable is getting shorter, the lower the implied DLOM.

Based on our discussion with the Valuer, we noted that it is common to use the abovementioned model as reference to discount for the lack of marketability, accordingly we concur with the view of the Valuer to adopt DLOM as part of the valuation methodology to determine the value of the Target Company to be fair and reasonable.

In conclusion, having considered (i) the P/B Multiple is in line with the average P/B Ratios of the Comparable Companies; and (ii) adjustment made in relation to the DLOM for the equity value of the Target Company is fair and reasonable, we are of the view that the Consideration is in line with the market approach, and thus the Consideration is fair and reasonable and is in the interests of the Company and Independent Shareholders as a whole.

Conditions Precedent and Completion

With reference to the Board Letter, Completion shall be conditional upon and subject to, amongst others, the following conditions precedent:

- (i) all necessary consents, permits and approvals required to be obtained on the part of the Target Company in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (ii) all necessary consents, permits and approvals required to be obtained on the part of the Purchaser in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

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- (iii) all necessary consents, permits and approvals required to be obtained on the part of the Vendor in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (iv) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM approving the Equity Transfer Agreement and the transactions contemplated thereunder in compliance with the Listing Rules;
- (v) the representations and warranties given by the Vendor under the Equity Transfer Agreement are true and accurate in all respects from the date of execution of the Equity Transfer Agreement up to the date of Completion, and that the undertakings and obligations under the Equity Transfer Agreement to be performed by the Vendor on or before the date of Completion have been fulfilled; and
- (vi) without limitation of conditions (i) to (v) above, all necessary consent approvals, permits and authorisation to be obtained from PRC governing authorities or other appropriate authorities in connection with the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained (if necessary).

With reference to the Board Letter, all conditions precedent set out above are incapable of being waived by the parties to the Equity Transfer Agreement. In the event that conditions precedent under the Equity Transfer Agreement have not been fully fulfilled on or before 31 December 2023 (or such later date as may be agreed between the parties thereto), the Equity Transfer Agreement shall cease and determine and thereafter, neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the provisions thereof.

With reference to the Board Letter, Completion shall take place within 10 Business Day after the fulfillment of all conditions precedent of the Equity Transfer Agreement or such later date as the Purchaser and the Vendor may agree.

Possible financial effects of the Disposal

With reference to the Board Letter, The carrying amount of the investment in the Target Group at the Latest Practicable Date is approximately RMB147.6 million, representing the Group's share of net assets of the Target Group under the equity method of accounting, less any impairment loss. After Completion, the Group will cease to own any interest in the Target Company. Taking into account of (i) the carrying amount of the investment in the Target Group of approximately RMB147.6 million as at the Latest Practicable Date and (ii) the estimated net proceeds of approximately RMB144.0 million (after deducting the expenses directly attributable thereto), the net asset values of the Group will be decreased by approximately RMB3.6 million (subject to audit) upon the Completion. In addition, subject to further audit procedures to be performed by the auditor of the Company, it is estimated that the Company will recognize a loss of

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approximately RMB2.7 million as a result of the Disposal, which is calculated by reference to the carrying amount of the investment in the Target Group and the Consideration.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be within twenty (20) Business Days after the date of Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal are on normal commercial terms and are fair and reasonable; and (ii) although the Disposal is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Advent Corporate Finance Limited
Jeffrey So **Anthony Lai**
Managing Director *Director*

Note: Mr. Jeffrey So is a licensed person registered with the Securities and Futures Commission and a responsible officer of Advent Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 16 years of experience in corporate finance industry.

Mr. Anthony Lai is a licensed person registered with the Securities and Futures Commission and a responsible officer of Advent Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 16 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022, the six months ended 30 June 2023 are disclosed in the annual reports of the Company for the years ended 31 December 2020, 2021 and 2022 and the interim report of the Company for the six months ended 30 June 2023, respectively, and there was no qualified audit opinion expressed on the consolidated financial statements of the Group for the three years ended 31 December 2020, 2021 and 2022.

The said annual reports and interim report of the Group are published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.kangdaep.com):

- the annual report of the Company for the year ended 31 December 2020 published on 23 April 2021 (pages 58 to 168) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300107.pdf>);
- the annual report of the Company for the year ended 31 December 2021 published on 25 April 2022 (pages 76 to 230) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500309.pdf>);
- the annual report of the Company for the year ended 31 December 2022 published on 16 February 2023 (pages 80 to 231) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600303.pdf>); and
- the interim report of the Company for the six months ended 30 June 2023 published on 28 September 2023 (pages 28 to 68) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0928/2023092800408.pdf>).

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2023, being the latest practicable date prior to the printing of this circular and for the purpose of ascertaining the information contained in this statement of indebtedness, the Group had outstanding indebtedness as follows:

- (i) interest-bearing, guaranteed, secured bank loans of approximately RMB1,017.3 million;
- (ii) interest-bearing, guaranteed, unsecured bank loans of approximately RMB3,495.4 million;
- (iii) interest-bearing, unguaranteed, unsecured bank loans of approximately RMB1,918.4 million;
- (iv) interest-bearing, guaranteed, secured other loans of approximately RMB605.0 million;
- (v) interest-bearing, guaranteed, unsecured other loans of approximately RMB1,607.3 million;

- (vi) interest-bearing, unguaranteed, unsecured other loans of approximately RMB1,239.7 million; and
- (vii) unguaranteed, unsecured lease liabilities of approximately RMB2.1 million.

Contingent liabilities

As at 31 October 2023, the Group did not have any material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at 31 October 2023, being the latest practicable date for determining indebtedness, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments or guarantees or other material contingent liabilities, nor any authorised or otherwise created but unissued debt securities.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the net proceeds to be received from the Disposal, the bank facilities and other internal resources, the Group will have sufficient working capital for at least twelve (12) months from the date of publication of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

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

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the annual report of the Company for the year ended 31 December 2022, the PRC continued to improve the policies in relation to water ecology environment during the 14th Five-Year Plan period. The National Development and Reform Commission issued the “Implementation Plan for the New Type of Urbanization of the 14th Five-Year Plan”, which proposed to strengthen the water environment in accordance with local conditions and promote the supporting network of domestic sewage treatment plants and resource utilisation of wastewater and sewage sludge. Local government departments have also launched the “Ecology Protection Plan of the 14th Five-Year Plan” in accordance with local conditions, setting targets for the management of the ecological environment. Additional policies, such as “Opinions on Further Improving the Policy Environment and Supporting the Development of Private Investment”, “Supporting the Participation from Private Investment in 102 Major Projects”, “Encouraging the Equal Participation of State-owned Enterprises, Private Enterprises, Foreign Enterprises and Other Market Entities as Social Capitalists in PPP Projects”, and “Implementation Plan on Promoting the Construction and Management of Domestic Wastewater and Waste Treatment Facilities in Established Towns”, and other policy documents were also released to encourage private investment in environmental protection projects. The Group believes that, in the foreseeable future, the central government of the PRC will continue to attach great importance to the wastewater treatment industry and continue to introduce favorable policies, and the industry as a whole will become more well-developed and profitable.

In addition, the central government has also encouraged the development of real estate investment trusts (“REITs”) in the infrastructure sector, and issued the “Notice on Accelerating the Work of Real Estate Investment Trusts in the Infrastructure Sector”, “Opinions on Further Revitalizing the Stock Assets and Expanding Effective Investment”, and “Opinions on Further Improving the Collaboration of Social Capital Investment and Financing Sectors”. The Group will continue to explore and diversify its financing channels including equity and debt financing and domestic REITs, when suitable opportunities arise.

In the coming year, Group will continue to focus on its principal business, namely wastewater treatment by seizing the opportunities provided by the national policy. The Group expects to increase the profitability of the existing projects and improve the operational cash flows of the Group by raising wastewater treatment standards and expansion. The Group will also continue deepening energy saving and consumption reduction measures, contributing to the improvement of the national ecological environment quality while enhancing the operational efficiency and controlling operating costs. The Group will also expedite the process of activating low efficiency assets to maximise return to the Shareholders.

The following is the full text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Vincorn Consulting and Appraisal Limited, an independent qualified valuer, in connection with the valuation of the Target Company as at 30 June 2023 to be disposed by the Company. Unless otherwise defined, terms used in this Appendix shall have the same meanings as those set out in this circular.

1. PREAMBLES

1.1. Instruction

Vincorn Consulting and Appraisal Limited (“**Vincorn**”) are pleased to submit our valuation report, which has been prepared for Kangda International Environmental Company Limited (the “**Instructing Party**” or the “**Company**”) for major transaction purpose.

The valuation has been carried out in accordance with the engagement letter dated 17 August 2023 (the “**Engagement Letter**”) signed between the Instructing Party and Vincorn. The extent of our professional liability to you is outlined in the Engagement Letter.

1.2. Subject

31% Equity Interest of 中原水務集團有限公司.

中原水務集團有限公司 (the “**Target Company**” or the “**Subject**”) was established in Zhengzhou, Henan in 2016, Henan, which is mainly engaged in the integration of urban and rural sewage treatment and water resources management. The Target Company also involves in the construction and management of environmental protection engineering and water conservancy infrastructure engineering.

1.3. Valuation Date

The valuation date is 30 June 2023.

1.4. Valuation Basis

The valuation has been prepared in accordance with the International Valuation Standards effective from 31 January 2022 published by the International Valuation Standards Council, where applicable.

The valuation is based on the going concern premise and conducted on a market value basis.

Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

1.5. Currency

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (“RMB”).

1.6. General Reservations

The purposes of the valuation do not alter the approach of the valuation.

A valuation is a prediction of price, not a guarantee. By necessity, it requires valuers to make subjective judgements that, even when logical and appropriate, may differ from those made by a purchaser or another valuer. Historically it has been considered that valuers may properly conclude within a range of possible values.

Business values can change substantially, even over a short period of time, so our opinion of values could differ significantly if the date of valuation was to change. If you wish to rely on our valuation for any other dates, you should consult us first. We recommend that you keep the valuation under frequent review. You should not rely on this report unless any reference to the legal titles has been verified as correct by your legal advisers.

1.7. Caveats and Assumptions

This report is subject to and includes our Standard Caveats and Assumptions as set out in the appendices at the end of this report, as well as our agreed terms of our engagement.

1.8. Limiting Conditions

The valuation report is subject to the limiting conditions as attached in Appendix 1.

1.9. Confidentiality

The information contained herein is confidential to you, for your sole use and for the specific purpose stated. We will not accept responsibility to any third party in respect of the information contained herein.

1.10. Non-disclosure

Neither the whole nor any part of the valuation report nor any reference thereto may be included in any published documents, circulars or statements, nor published in any ways whatsoever without a prior written approval of Vincorn as to the form and context in which it may appear, except as requested by the relevant regulatory body, including the Stock Exchange of Hong Kong Limited and the Securities and Futures Commission.

1.11. Statement of Independence

We hereby certify that we have neither present nor prospective interest in Kangda International Environmental Company Limited, the Target Company, their respective subsidiaries and associated companies or the result reported. In addition, our directors are neither directors, supervisors nor officers of Kangda International Environmental Company Limited or the Target Company.

In the course of our valuation, we are acting independently of all parties. Our fees are agreed on a lump-sum basis and are not correlated with the results of our valuation.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Company, and/or its representative (together referred to as the “**Management**”).

In the course of our valuation, the following processes have been conducted to evaluate the information provided by the Management:

- Discussion with the Management and obtained relevant information in respect of the Target Company;
- Examined the relevant basis and assumptions of the financial information in respect of the Target Company provided by the Management;
- Conducted appropriate researches to obtain sufficient market data and statistical figures and prepared the valuation based on generally accepted valuation procedures and practices; and
- Arriving at our valuation opinion based on the assumptions stated in this report and on information provided by the Management.

No on-site inspection has been made as part of the agreed-upon procedures for this valuation task.

3. SOURCES OF INFORMATION

In conducting our valuation of the Target Company, we have considered, reviewed and relied upon the following key information which is available to the public or provided by the Management:

- Background of the Target Company and relevant corporate information;
- Audited consolidated financial statement for the financial year ended 31 December 2022;
- Unaudited consolidated financial statement for the 6-month period ended 30 June 2023;

- Relevant document of the transaction; and
- S&P Capital IQ database and other reliable sources.

4. VALUATION ASSUMPTION AND RATIONALE

For the purpose of determining the equity interest of the Target Company, we have considered all the prominent factors affecting the value and assumed, including but not limited to, the following:

- We have assumed that there will be no material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- We have assumed that the conditions in which the Target Company is operated, and which are material to revenue and costs of the businesses of the Target Company will have no material change;
- We have assumed that the information has been prepared on a reasonable basis after due and careful consideration by the Client;
- We have assumed that competent management, key personnel and technical staff will be maintained to support the ongoing operation and development of the Target Company;
- We have assumed that all licenses and permits that is essential for the operation of the Target Company can be obtained and are renewable upon expiry; and
- We have assumed that there are no hidden or unexpected conditions associated with the businesses valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

5. VALUATION METHODOLOGY

5.1. Selection of Valuation Approach

There are three generally accepted approaches to assess the equity interest of the Target Company, namely, Market Approach, Cost Approach and Income Approach. Each of these approaches is appropriate in one or more circumstances. Whether to adopt a particular approach will be determined with reference to the most common adoption when similar subjects are being valued.

Market Approach

Market Approach values assets based on comparison with recent market transactions of selling similar assets. Market Approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions.

As advised by the Company, the Subject are expected to sustain its existing business operations in the foreseeable future. Therefore, we have considered that market approach is the most optimal approach for valuing the Subject.

Cost Approach

Cost Approach values assets with reference to the accumulating costs that would incur in order to replace or reproduce the assets in its current condition. This approach is not considered to be an appropriate approach to valuing income-generating assets as it generally does not capture the future expected returns to the asset.

We have considered but decided against Cost Approach as this approach disregards the future profit potentials of the Target Company. Therefore, Cost Approach is not appropriate to estimate the equity interest of the Target Company and is not adopted in our valuation.

Income Approach

Income approach values assets with reference to the capitalized value of income, cash flows or cost savings that could hypothetically be earned or achieved by a market participant owning the assets.

The principle of this approach is that the value of the asset can be measured by the present worth of the economic benefits to be received over the asset life. This approach estimates the future economic benefits and discounts these benefits to their present value using an appropriate discount rate for all risks associated with realizing those benefits. We have also considered that the income approach is not optimal to value the Subject as this approach involves financial forecast information and the adoption of more assumptions than the other two approaches, not all of which can be easily justified or ascertained.

5.2. Valuation of the Market Value of the Target Company

Guideline Public Company Method

The premise behind the guideline public company method (“**Guideline Public Company Method**”) is that the prices of publicly traded stocks in the same or a similar industry provide objective evidence as to the values at which investors are willing to buy and sell the interest of the companies in that industry. In applying Guideline Public Company Method, we compute a valuation multiple for various benefit streams for each guideline public company. The appropriate valuation multiple is determined and adjusted for the unique aspects of the Target Company being valued. This valuation multiple is then applied to the Target Company to arrive at an estimate of value for the appropriate ownership interest. Since the purpose of the valuation is to determine the equity interest, the valuation multiples are based on equity value. A valuation multiple represents a ratio that uses a

comparable company's market value as at the Valuation Date as the numerator and the comparable company's operating results (or financial position) as the denominator.

Price to Sales (“**P/S**”) multiple is not adopted as the Target Company is in a growth and development stage. The revenue is expected to experience further growth. Therefore, the current unstable revenue cannot reasonably represent its sustainable sales in the future.

Price to Earnings (“**P/E**”) multiple is not adopted because Target Company is in a growth and expansion stage and its earnings as well as the profitability have not yet been stabilized and are still volatile given the fact that the Target Company experienced a net loss for the 6-month period ended 30 June 2022 while it had a net profit for the 6-month period ended 30 June 2023. The current unstable earning cannot reasonably represent its sustainable profit in the future.

Price to Book (“**P/B**”) multiple is suitable for this valuation because P/B ratio reflects the market value of the Target Company based on its net book value attributed to common equity holders. Given that the business of the Target Company is capital intensive in nature and the value is driven by the amount of its net assets, P/B ratio serves as an appropriate indicator for deriving the market value of the Target Company.

Therefore, P/B ratio are considered appropriate in this valuation.

Once we have selected certain guideline public companies and made the necessary adjustments to their financial information when needed, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all selected guideline public companies. The process of computing the valuation multiple in this case consists of the following procedures:

- (a) Determination of the market capitalization for each guideline public companies as at the Valuation Date. The market capitalization for each guideline public companies is made reference to S&P Capital IQ as at the Valuation Date.
- (b) Determination of the net book value attributed to common equity holders as at the valuation date. The net book value attributed to common equity holders for each guideline public companies is made reference to S&P Capital IQ and represents the denominator of the valuation multiple.

The application of this method depends on the selection of guideline public companies that are similar enough to the underlying business of the Target Company so as to provide a meaningful comparison. We exercised due care in the selection of guideline public companies by using reasonable criteria in deciding whether a particular guideline public company is relevant. When the similarity between the Target Company and the guideline public companies is so low that a meaningful comparison cannot be made, we would then question the use of this Guideline Public Company Method.

The Comparable Companies for deriving the ratio

Due care was exercised in the selection of Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant. In selecting the Guideline Public Companies, we started with the description of the potential companies, in terms of lines of business, financial results and other criteria. In order to comprise a representative set of guideline public companies to derive the valuation result, certain criteria have to be set to ensure similarity between the guideline public companies and the Target Company.

Firstly, our focus is to identify listed companies which engaged in processing polluted water since the principal business of the Subject is mainly providing sewage and wastewater treatment and these companies should be listed in the stock exchange. As a result, listed companies with similar business exposure in relation to the principal activity of the Subject are identified. We consider this selection basis is reasonable and the sample list is fair and representative. As a result, the comparable companies were selected with reference to the criteria as follows:

- The comparable companies derive the sales mainly from sewage and wastewater treatment;
- Revenue attributable to sewage and wastewater treatment of the comparable companies are over 50% of the total revenue in their latest financial year.
- The comparable companies are based and operate in Mainland China;
- The comparable companies are listed in Mainland China or Hong Kong;
- The comparable companies have at least 2 years of operating histories and have positive net book value attributed to common equity holders based on latest information prior to the Valuation Date; and
- The financial information of the comparable companies is available to the public.

We then identified 19 guideline public companies to be comparable to the Target Company with the aforesaid criteria, and calculated P/B ratio for each guideline public companies. The following is the list of the guideline public companies that we have selected in connection with the valuation of the Subject.

Details of the Comparable Companies:

Company Name	Ticker	Business Description
Beijing Enterprises Water Group Limited	SEHK:371	Beijing Enterprises Water Group Limited, an investment holding company, provides water treatment services. The company operates through Sewage and Reclaimed Water Treatment and Construction Services; Water Distribution Services; Technical and Consultancy Services and Sale of Machineries; and Urban Resources Services segments. The company offers sewage and reclaimed water treatment services in People's Republic of China, Singapore, Portugal, Australia, and New Zealand; and distributes and sells piped water in the People's Republic of China, Portugal, and Australia. Beijing Enterprises Water Group Limited was incorporated in 1993 and is headquartered in Wan Chai, Hong Kong.
Tianjin Capital Environmental Protection Group Company Limited	SEHK:1065	Tianjin Capital Environmental Protection Group Company Limited, together with its subsidiaries, engages in the sewage treatment and construction of the sewage treatment plants in the People's Republic of China. It operates through Sewage Water Processing and Water Plant Facilities Construction; Recycled Water and Pipeline Connection; The company offers municipal sewage treatment, and water supply and recycling services, as well as sludge treatment, etc.; and involved in hazardous wastes business. The company was founded in 1993 and is based in Tianjin, the People's Republic of China. Tianjin Capital Environmental Protection Group Company Limited is a subsidiary of Tianjin Municipal Investment Company Limited.

Company Name	Ticker	Business Description
China Everbright Water Limited	SEHK:1857	China Everbright Water Limited, an investment holding company, provides water environmental management services in Mainland China and Germany. It is involved in waste water treatment, industrial waste water treatment, and reusable water; river restoration work; leachate treatment; water supply; sludge treatment and disposal; sponge city construction; river-basin ecological restoration; and waste water source heat pump, as well as research and development on water environmental technologies and engineering construction. The company was incorporated in 2003 and is based in Shenzhen, the People's Republic of China. China Everbright Water Limited is a subsidiary of China Everbright Water Holdings Limited.
Kunming Dianchi Water Treatment Co., Ltd.	SEHK:3768	Kunming Dianchi Water Treatment Co., Ltd., together with its subsidiaries, designs, develops, constructs, operates, and maintains water supply and wastewater treatment facilities in the People's Republic of China. The company operates through Wastewater Treatment, Water Supply, and Others segments. It designs, constructs, operates, and maintains wastewater treatment or water supply facilities under the transfer-operate-transfer and build-operate-transfer concession agreements. The company was founded in 1989 and is headquartered in Kunming, the People's Republic of China. Kunming Dianchi Water Treatment Co., Ltd. is a subsidiary of Kunming Dianchi Investment Co., Ltd.

Company Name	Ticker	Business Description
Kangda International Environmental Company Limited	SEHK:6136	Kangda International Environmental Company Limited, an investment holding company, engages in the urban water treatment, water environment comprehensive remediation, and rural water improvement businesses in People's Republic of China. Its Urban Water Treatment segment is involved in the design, construction, upgradation, and operation of wastewater treatment plants (WTP), reclaimed water treatment plants, sludge treatment plants, and water distribution plants; and the operation and maintenance of wastewater treatment facilities entrusted by governments. The company was founded in 1996 and is headquartered in Chongqing, the People's Republic of China.
Yunnan Water Investment Co., Limited	SEHK:6839	Yunnan Water Investment Co., Limited, an investment holding company, designs, develops, constructs, operates, and maintains municipal water supply, and wastewater and solid waste treatment facilities in the People's Republic of China and internationally. It operates through Wastewater Treatment, Water Supply, Solid Waste Treatment, Construction and Sales of Equipment, and Others segments. The company constructs and operates wastewater treatment projects, water supply projects, and solid waste treatment projects; and produces, sells, and installs equipment for wastewater treatment, water supply, solid waste treatment, and other infrastructure facilities. Yunnan Water Investment Co., Limited was founded in 2009 and is headquartered in Kunming, the People's Republic of China.
Wuhan Sanzhen Industry Holding Co., Ltd	SHSE:600168	Wuhan Sanzhen Industry Holding Co., Ltd engages in the water production and supply activities in China. It is also involved in the construction and operation of urban infrastructure, such as sewage treatment, tap water production, and tunnel operation. The company is headquartered in Wuhan, China.

Company Name	Ticker	Business Description
Heilongjiang Interchina Water Treatment Co., Ltd	SHSE:600187	Heilongjiang Interchina Water Treatment Co., Ltd engages in the construction and operation of water treatment, environmental protection projects, energy saving and clean energy transformation and other related project and other related projects in China. It also offers sewage and drainage treatment, tap water supply, and environmental protection engineering and technical services; investment, management, and related services for water and environmental protection projects; construction project and investment management services; energy saving and environmental protection technology development and services; technical consultation, and technology transfer and services; and engineering design and consulting, and environmental engineering consulting services. The company was founded in 1998 and is headquartered in Shanghai, China.
Chongqing Water Group Co., Ltd.	SHSE:601158	Chongqing Water Group Co., Ltd. engages in the water supply, sewage treatment, engineering construction, and other businesses in China. The company constructs, operates, and maintains water supply and drainage facilities; and collects, treats, and discharges domestic sewage, industrial and commercial sewage, rainwater, and other sewage from the urban sewage pipe network, as well as treats sewage in rivers. Chongqing Water Group Co., Ltd. was founded in 2001 and is based in Chongqing, China. Chongqing Water Group Co., Ltd. is a subsidiary of Chongqing Derun Environment Co., Ltd.

Company Name	Ticker	Business Description
Guangxi Nanning Waterworks Co., Ltd.	SHSE:601368	Guangxi Nanning Waterworks Co., Ltd. produces and sells tap water in China. It is also involved in the sewage treatment activities; and construction and operation of water supply and sewage treatment facilities. The company was founded in 2006 and is headquartered in Nanning, China. Guangxi Nanning Waterworks Co., Ltd. is a subsidiary of Nanning Jianning Water Investment Group Co., Ltd.
Poten Environment Group Co., Ltd.	SHSE:603603	Poten Environment Group Co., Ltd. provides various environmental services. The company offers iRiver smart water environment management system for online monitoring of water quality and hydrological conditions; and invests in, implements, operates, and manages water service projects, which include water supply, sewage treatment, and reuse of reclaimed water. The company was founded in 1995 and is headquartered in Beijing, China.
Haitian Water Group Co., Ltd.	SHSE:603759	Haitian Water Group Co., Ltd engages in the water supply and sewage treatment businesses in China. The company was founded in 1999 and is based in Chengdu, China.
Guangdong Liantai Environmental Protection Co., Ltd.	SHSE:603797	Guangdong Liantai Environmental Protection Co., Ltd. provides environmental products and services in China. The company engages in the investment, construction, and operation management of urban and rural sewage treatment facilities; provision of technical services for sewage treatment; black and odorous water remediation and ecological project investment. It also operates drainage pipe networks, pumping stations, and other sewage facilities. The company was founded in 2005 and is based in Shantou, China.

Company Name	Ticker	Business Description
Fujian Haixia Environmental Protection Group Co., Ltd.	SHSE:603817	Fujian Haixia Environmental Protection Group Co., Ltd. provides environmental services in China. It offers single and municipal sewage treatment, landfill leachate treatment, industrial wastewater treatment, township sewage treatment, sludge treatment and disposal, garbage and solid waste disposal, environmental protection testing, and domestic waste collection and transfer services, as well as resource utilization of muck and construction waste. The company was founded in 2002 and is headquartered in Fuzhou, China. Fujian Haixia Environmental Protection Group Co., Ltd. operates as a subsidiary of Fuzhou Water Group Co., Ltd.
CSD Water Service Co., Ltd.	SHSE:603903	CSD Water Service Co., Ltd. provides environmental services in China. The company offers municipal sewage treatment, urban sewage treatment, industrial park and industrial sewage treatment, comprehensive environmental management, industrial wastewater treatment, industrial park integrated environmental services, groundwater pollution remediation, comprehensive management of water environment, and sludge treatment and disposal services. CSD Water Service Co., Ltd. was founded in 2009 and is headquartered in Beijing, China.
GreenTech Environmental Co., Ltd.	SHSE:688466	GreenTech Environmental Co., Ltd. engages in the water treatment and waste-to-resources projects in the People's Republic of China. It focuses on engineering, construction, operation, management, and finance of projects in the areas of wastewater treatment and upgradation, water reuse and waste-to-resources, and water environment using membrane technologies. The company was founded in 2004 and is based in Beijing, the People's Republic of China.

Company Name	Ticker	Business Description
Cecep Guozhen Environmental Protection Technology Co., Ltd.	SZSE:300388	Cecep Guozhen Environmental Protection Technology Co., Ltd. primarily engages in the municipal and industrial wastewater treatment business in China. The company is also involved in the design of urban water environment treatment, and village and town water environment treatment, as well as production, sale, and integration of water treatment equipment. In addition, it engages in the manufacture and sale of membrane module; investment and financing; and pipe network businesses. The company was founded in 1997 and is based in Hefei, China.
Guangxi Bossco Environmental Protection Technology Co., Ltd.	SZSE:300422	Guangxi Bossco Environmental Protection Technology Co., Ltd. provides environmental management, professional technical, and operations services in China and internationally. The company offers industrial wastewater treatment solutions, which includes up-flow multistage anaerobic reactor and heterogeneous oxidation towers, and counter flow continuous sand filters. It also provides urban and rural environmental services, including urban black odor water treatment services; water supply and drainage integration projects; and sewage treatment system equipment. Guangxi Bossco Environmental Protection Technology Co., Ltd. was founded in 1999 and is headquartered in Nanning, China.

Company Name	Ticker	Business Description
BGT Group Co., Ltd.	SZSE:300774	BGT Group Co., Ltd. engages in water treatment technology research and development, system design, equipment manufacturing, installation and commissioning, and operation in China. It operates in the areas of pretreatment, pre-desalting, fine desalination, condensate reuse, seawater desalination, special separation, zero emission, concentrated water discharge, wastewater biochemical treatment technology, such as BAF/MBBR/SBR membrane bioreactor, RO/NF concentrated water reuse, sewage/water reuse, and industrial wastewater treatment technology, as well as standardized inspection and offline cleaning technology for UF/MF/NF/RO/EDI components, water treatment system troubleshooting and upgrading, and whole plant water system operation and maintenance. The company was founded in 2004 and is based in Beijing, China.

Source: S&P Capital IQ and Financial Reports of the Comparable Companies

The above Comparable Companies, together with the Target Company, are similarly subject to fluctuations in the economy and performance of sewage treatment related business among other factors. Thus, we consider they are confronted with similar industry risks and returns.

Detailed calculations of the valuation multiples of the Comparable Companies are as follows:

Stock Ticker	Trading Currency	Market Capitalization (Trading Currency million) ¹	Net Book Value attributed to common equity holders (Trading currency million) ¹	Implied P/B ²	Adopted Size Premium Adjustment ³	Size adjusted P/B ⁴
SEHK:371	HKD	18,686.69	32,397.27	0.58x	3.90%	0.56x
SEHK:1065	HKD	8,732.79	9,394.62	0.93x	3.46%	0.90x
SEHK:1857	HKD	3,561.63	12,003.45	0.30x	3.65%	0.29x
SEHK:3768	HKD	885.04	5,203.46	0.17x	0.00%	0.17x
SEHK:6136	HKD	845.20	6,146.82	0.14x	0.00%	0.14x
SEHK:6839	HKD	322.17	2,723.43	0.12x	0.00%	0.12x
SHSE:600168	RMB	4,264.51	5,436.29	0.78x	3.65%	0.76x
SHSE:600187	RMB	4,696.10	3,212.66	1.46x	3.65%	1.39x
SHSE:601158	RMB	26,688.00	16,503.66	1.62x	3.90%	1.52x
SHSE:601368	RMB	4,679.76	4,638.50	1.01x	3.65%	0.97x
SHSE:603603	RMB	3,060.45	1,694.92	1.81x	3.65%	1.69x
SHSE:603759	RMB	4,229.72	2,434.48	1.74x	3.65%	1.63x
SHSE:603797	RMB	3,203.82	2,892.53	1.11x	3.65%	1.06x
SHSE:603817	RMB	3,296.92	2,619.53	1.26x	3.65%	1.20x
SHSE:603903	RMB	2,282.56	1,665.86	1.37x	2.68%	1.32x
SHSE:688466	RMB	2,031.83	1,118.39	1.82x	2.68%	1.73x
SZSE:300388	RMB	4,568.98	3,987.13	1.15x	3.65%	1.10x
SZSE:300422	RMB	3,034.29	2,286.00	1.33x	3.65%	1.27x
SZSE:300774	RMB	4,758.01	1,458.76	3.26x	3.65%	2.91x
Average						<u>1.09x</u>

Notes:

- The figures are rounded to the nearest 0.01 million.
- The Implied P/B ratios are calculated by dividing net book value attributed to common equity holders of the Comparable Companies from the latest audited financial statements as at 30 June 2023 by its respective market capitalisation as of the Valuation Date as extracted from S&P Capital IQ.

3. The adopted size premium adjustment for each of the Comparable Companies is derived as below:

Stock Ticker	Market Capitalisation (USD million)	Target Company's size premium ⁵ (a)	Size Premium ⁵ (b)	Adopted Size Premium Adjustment ⁶ (a)-(b)
SEHK: 371	2,384.59	4.83%	0.93%	3.90%
SEHK: 1065	1,114.38	4.83%	1.37%	3.46%
SEHK: 1857	454.50	4.83%	1.18%	3.65%
SEHK: 3768	112.94	4.83%	4.83%	0.00%
SEHK: 6136	107.85	4.83%	4.83%	0.00%
SEHK: 6839	41.11	4.83%	4.83%	0.00%
SHSE: 600168	588.02	4.83%	1.18%	3.65%
SHSE: 600187	647.53	4.83%	1.18%	3.65%
SHSE: 601158	3,679.94	4.83%	0.93%	3.90%
SHSE: 601368	645.28	4.83%	1.18%	3.65%
SHSE: 603603	422.00	4.83%	1.18%	3.65%
SHSE: 603759	583.22	4.83%	1.18%	3.65%
SHSE: 603797	441.77	4.83%	1.18%	3.65%
SHSE: 603817	454.60	4.83%	1.18%	3.65%
SHSE: 603903	314.74	4.83%	2.15%	2.68%
SHSE: 688466	280.16	4.83%	2.15%	2.68%
SZSE: 300388	630.00	4.83%	1.18%	3.65%
SZSE: 300422	418.39	4.83%	1.18%	3.65%
SZSE: 300774	656.07	4.83%	1.18%	3.65%

4. Since the comparable companies may have different size from the Target Company, a size premium is adopted for adjusting the multiples. The size premium is the additional risk premium required by investors for companies that are relatively smaller. Smaller companies are perceived as riskier in relation to business operation and financial performance, resulting in lower valuation multiple. We have taken into account the impact of the difference in the market capitalization between the Comparable Companies and the Target Company. Set out below is the proposed adjustment to the P/B ratio (the “**Adjusted P/B Ratio**”) considering the impact of the size difference:

$$\text{Adjusted P/B Ratio} = \frac{1}{\frac{1}{\text{P/B Ratio}} + \text{Adopted Size Premium}}$$

5. Small company risk premium is the additional return required by small company investors to compensate the higher perceived risks of small companies. The small company risk premium is made reference to 2022 Valuation Handbook — Guide to Cost of Capital (“**Handbook**”). The Handbook is the study of historical capital markets data in the United States. Commonly used by valuers, consultants, and analysts to analyse asset class performance, the yearbook contains the CRSP Decile Size Premia Study. The premia in the Handbook were calculated using the data sources: (i) Standard and Poor’s, (ii) the Center for Research in Security Prices (CRSP) at the University of Chicago Booth School of Business and (iii) Morningstar — the actual “SBBI” data series in the Handbook.
6. The Adopted Size Premium Adjustment of each of the Comparable Companies is derived by the formula below:

Adopted Size Premium Adjustment = Target Company’s Size Premium — Size Premium of each of the Comparable Companies

Discount for Lack of Marketability (“DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In our valuation, we applied an option pricing model to estimate the marketability discount. An investor may purchase an at-the-money put option of similar stock to hedge the current value of the underlying stock or acquiring an at-the-money put option of the underlying shares, so that the investor can dispose the shares by exercising the option. As such, we may estimate the discount by assessing the additional cost to the investor for investing in non-listed shares with liquidity comparable with listed shares. As the time the share of stock in a privately held company become readily marketable is getting shorter, the lower the implied DLOM. In this valuation, DLOM is evaluated as 11.89%.

Summary of the Target Company Valuation

Details of the 31% equity interest of the Target Company as at the Valuation Date are as follows:

Summary of the Target Company Valuation	<i>RMB</i>
31% Equity Value Derived from:	
Size Adjusted P/B Multiple	1.09x
Net book value attributed to common equity holders as of 30 June 2023	<u>476,125,027</u>
100% Equity Interest before DLOM	520,205,619
Less: Discount for Lack of Marketability (“DLOM”)	<u>(61,860,598)</u>
100% Equity Interest after DLOM	<u>458,345,021</u>
31% Equity Interest after DLOM	<u>142,086,956</u>
Market Value of 31% Equity Interest in 中原水務集團 有限公司 (Rounded):	<u><u>142,100,000</u></u>

6. VALUATION CONCLUSION

In our opinion, on the basis of the assumptions and information make available to us, the market value of 31% Equity Interest of 中原水務集團有限公司 as of 30 June 2023 is reasonably estimated at:

RMB142,100,000

(RENMINBI ONE HUNDRED FORTY TWO MILLION AND ONE HUNDRED THOUSAND)

Signed for and on behalf of Vincorn Consulting and Appraisal Limited

Freddie Chan

*BBA-FIN (Hons) CFA ACCA FRM MRICS
RICS Registered Valuer
Executive Director*

Vincent Cheung

*BSc (Hons) MBA FRICS FHKIS RPS(GP) MCIREA
MHKSI MISC MHIREA FHKIoD
RICS Registered Valuer
Registered Real Estate Appraiser & Agent PRC
Managing Director*

APPENDIX 1

Limiting Conditions**1. PRELIMINARY**

- 1.1 These general terms and conditions (the “**Terms and Conditions**”) shall apply to all forms of professional services, provided by Vincorn Consulting and Appraisal Limited, (“**we**”, “**us**” or the “**Firm**”) to the client to whom the service agreement is sent (the “**client**” or “**you**”). They shall apply separately to each service provided to you.
- 1.2 The Terms and Conditions are to be read in conjunction with the service agreement (the “**Agreement**”) sent by us to you. In the event of any ambiguity or conflict between the Agreement and these Terms and Conditions, the provisions in the Agreement shall prevail. These Terms and Conditions and the Agreement may only be varied in writing by agreement between the parties.

2. PERFORMANCE OF THE SERVICES

- 2.1 We undertake to use all reasonable skill and care in providing the services and advice described in the instruction given by you (the “**Services**”). We will inform you if it becomes apparent that the Services need to be varied or external third party advice is required. Any variation is to be confirmed in writing.
- 2.2 We may need to appoint third party providers to perform all or part of the Services and we shall agree this with you in advance.
- 2.3 Where matters beyond the control of ourselves cause delay to the performance of the services we will notify the client as soon as we become aware of the situation. The client agrees that we will not be held responsible for such delay.

3. BASIS OF FEES

- 3.1 The basis of our fees for our Services is set out in the Agreement.
- 3.2 When applicable, VAT shall be payable by you in addition to any fees or disbursements invoiced at the applicable rate.
- 3.3 You shall pay our fees on completion of our Services (whether or not additional work is still to be carried out by third parties) or, where the fees are in relation to an ongoing instruction or an instruction of a duration of more than three months, at least quarterly in arrears upon submission by us of quarterly fee accounts. Payment is due within 30 days of the invoice date.

- 3.4 Where valuations are undertaken for a lender for financing purposes and it is agreed that a borrower will pay our fee, you shall remain primarily liable to pay our fee should such borrower fail to meet its liabilities to us in full. Payment of our fees is not conditional upon the loan being drawn down or any of the conditions of the loan being met.
- 3.5 If you do not dispute with us an invoice or any part thereof within 30 days of the date of such invoice, you shall be deemed to have accepted the invoice in its entirety.
- 3.6 If we are required by you to undertake additional work in relation to an instruction, you shall pay additional fees based upon our usual rates. We will notify you of the amount of such additional fees.
- 3.7 Where there is a change to the stated purpose for which our valuation is being commissioned and in our sole opinion, we deem this to result in an increase in our liability (for example a valuation for accounting purposes being used for financing purposes), we reserve the right to charge an additional fee.
- 3.8 In the event that you withdraw our instructions prior to completion of a valuation, you shall be liable to pay us for a fair and reasonable proportion of our fees and any agreed disbursements. If we have sent you a draft report, such fees shall be subject to a minimum of 80% of the fee originally agreed between us.
- 3.9 We will advise you in advance if it is necessary or convenient to instruct a third party to provide advice or to act as an expert or arbitrator and provide an estimate of the likely cost. If you approve, either verbally or in writing, that the third party be instructed, we will instruct the party as agent on your behalf and request that all the third party's invoices be addressed to you. If we are requested by you to advance payment of the third party invoices, you shall be obliged to reimburse the advance payment made and pay a handling charge.
- 3.10 Where we are instructed to provide Services to one of your subsidiaries or associate/related entities or should you subsequently request that another entity be substituted for you at a later stage and we are unable to seek or obtain payment of any outstanding monies for whatever reason, you shall remain primarily liable to pay those outstanding monies if the subsidiary, associate/related or other entity does not meet its liabilities in relation to the Services.

4. INTEREST

- 4.1 You shall pay interest on the amount of any invoice for fees or other disbursements that remain unpaid for 30 days after the date of the invoice. Interest shall be payable at the prime lending rate published by the Hong Kong and Shanghai Banking Corporation from the date of the invoice until payment is made whether after or before judgement.

5. DISBURSEMENTS

5.1 You shall reimburse disbursements incurred in the provision of the Services quarterly in arrears from the date they were incurred. These include, for example, maps, plans, research, photography, copying of documents or plans, messenger delivery, costs of obtaining records of companies or assets, demographic or other similar information, any reproduction, copying or other royalties incurred, additional bound copy reports, costs of external information/references obtained, travel and subsistence expenses at their actual cost and car mileage at the reasonable scales.

6. INFORMATION RECEIVED FROM THE CLIENT

6.1 We will take all reasonable steps to ensure property information is accurate where we are responsible for its preparation. Where you provide us with any information on a property that is necessary or convenient to enable us to provide the Services properly, you are aware that we will rely on the accuracy, completeness and consistency of any information supplied by you or on your behalf and, unless specifically instructed otherwise in writing, we will not carry out any investigation to verify such information. We accept no liability for any inaccuracy or omission contained in information disclosed by you or a third party on your behalf, whether prepared directly by you or by that third party, and whether or not supplied directly to us by that third party, and you shall indemnify us should any such liability arise. Also, in any circumstances, you accept that full investigation of the legal title and any leases is the responsibility of your lawyers.

7. CONFLICTS OF INTEREST

7.1 We have conflict management procedures designed to prevent us acting for one client in a matter where there is or could be a conflict with the interest of another client for whom we are acting. If you are aware or become aware of a possible conflict of this type, please raise it immediately with us. If a conflict of this nature arises, then we will decide, taking account of legal constraints, relevant regulatory body rules and your and the other client's interests and wishes, whether we can continue to act for both parties (e.g. through the use of separate teams with appropriate Chinese Walls), for one only or for neither. Where we do not believe that any potential or actual conflict of interest can be managed appropriately, we will inform you and consult with you as soon as reasonably practicable.

8. MANAGEMENT OF THE ASSET

8.1 We shall not be responsible for the management of the asset nor have any other responsibility (such as maintenance or repair) in relation to the asset. We shall not be liable for any damage that may occur to the asset which we are providing services for. The asset shall be your sole responsibility.

9. VALUATION BASIS AND ASSUMPTIONS

Valuation Date

9.1 Unless we have said otherwise within the Agreement or our report, the valuation date will be the date of our report.

Basis of Valuation

9.2 Unless we have said otherwise within the Agreement or our report, the valuation will be prepared in accordance with the prevailing International Valuation Standards (“IVS”) published by the International Valuation Standards Council.

9.3 Each property will be valued on a basis appropriate to the purpose of the valuation, in accordance with the IVS. The basis of valuation that we will adopt for each property is specified in the Agreement and our report.

9.4 When assessing Market Value for balance sheet purposes, we will not include directly attributable acquisition or disposal costs in our valuation. Where you have asked us to reflect costs, they will be stated separately.

Specialised Asset

9.5 In the case of Specialised Asset (where valuation methods such as market comparison or an income (profits) test cannot be reliably applied), we may use Cost Approach as a method of estimating Market Value. The valuation using this method of an asset in the private sector will include a statement that it is subject to the adequate profitability of the business, paying due regard to the value of the total assets employed. If the asset is in the public sector, the valuation will include a statement that it is subject to the prospect and viability of the continued occupation and use. Any writing down of a valuation derived solely from Cost Approach to reflect the profitability/viability of the entity in occupation is a matter for the occupier.

Specialised Trading Asset

9.6 Where appropriate, specialised trading assets will be valued on the basis of Market Value as a fully equipped operational entity, having regard to trading potential.

9.7 Where we are instructed to value an operational asset with regard to its trading potential, we will take account of any trading information that either the operator has supplied to us or that we have obtained from our own enquiries. We will rely on this being correct and complete and on there being no undisclosed matters that could affect our valuation. The valuation will be based on our opinion as to future trading potential and the level of turnover and net operating income likely to be achieved by a reasonably efficient operator.

9.8 Unless we have said otherwise within the Agreement or our report:

- (i) the valuation will be made on the basis that each asset will be sold as a whole including all fixtures, fittings, stock and goodwill;
- (ii) we will assume that the new owner will normally engage the existing staff and the new management will have the benefit of existing and future bookings or occupational agreements (which may be an important feature of the continuing operation), together with all existing statutory consents, operational permits and licences;
- (iii) we will assume that all assets and equipment are fully owned by the operator and are not subject to separate finance leases or charges;
- (iv) we will exclude any consumable items and stock in trade; and
- (v) we will assume that all goodwill for an asset is tied to the asset itself and does not represent personal goodwill to the operator.

Real Property

9.9 Unless otherwise advised by you in writing, we will provide the Services in relation to any real properties on the assumption that:

- (i) the property and any existing buildings are free from any defect whatsoever;
- (ii) all buildings have been constructed having appropriate regard to existing ground conditions or that these would have no unusual effect on building costs, property values or viability of any development or existing buildings;
- (iii) all the building services (such as lifts, electrical, gas, plumbing, heating, drainage and air conditioning installations and security systems) and property services (such as incoming mains, waste, drains, utility supplies, etc.) are in good working order without any defect whatsoever;
- (iv) roads and sewers serving the property have been adopted and that the property has all necessary rights of access over common estate roads, paths, corridors and stairways and to use common parking areas, loading areas and other facilities;
- (v) there are no environmental matters (including but not limited to actual or potential land, air or water contamination, or by asbestos or any other harmful or hazardous substance) that would affect the property, any development or any existing buildings on the property in respect of which the Services are provided or any adjoining property, and that we shall not be responsible for any investigations into the existence of the same and that you are responsible for making such investigations;

- (vi) any building, the building services and the property services comply with all applicable current regulations (including fire and health and safety regulations);
- (vii) the property and any existing building comply with all planning and building regulations, have the benefit of appropriate planning consents or other statutory authorisation for the current use and no adverse planning conditions or restrictions apply (which includes, but is not limited to, threat of or actual compulsory purchase order);
- (viii) appropriate insurance cover is, and will continue to be, available on commercially acceptable terms for any building incorporating types of construction or materials which may pose an increased fire or health and safety risk, or where there may be an increased risk of terrorism, flooding or a rising water table;
- (ix) items of plant and machinery that usually comprise part of the property on an assumed sale are included in the property but items of plant and machinery that are associated with the process being carried on in the property or tenants trade fixtures and fittings are excluded from the property;
- (x) in reflecting the development potential of any property, that all structures will be completed using good quality materials and first class workmanship;
- (xi) any occupational leases are on full repairing and insuring terms, with no unusually onerous provisions or covenants that would affect value;
- (xii) in respect of any lease renewals or rent reviews, all notices have been served validly within any time limits;
- (xiii) vacant possession can be assumed for a premises which is currently occupied by the landlord or a tenant; and
- (xiv) any mineral rights are excluded from the property.

9.10 We will not carry out a structural survey of any property nor will we test services. Further, no inspection will be made of the woodwork and other parts of the structures which are covered, unexposed or inaccessible. In the absence of information to the contrary, the valuation will be on the basis that the property is free from defect. However, the value will reflect the apparent general state of repair of the property noted during inspection, but we do not give any warranty as to the condition of the structure, foundations, soil and services. Our report should not be taken or interpreted as giving any opinion or warranty as to the structural condition or state of repair of the property, nor should such an opinion be implied.

9.11 If we give the age of a building in our report, this will be an estimate and for guidance only.

- 9.12 Where we are required to measure a property we will generally do so in accordance with the Code of Measuring Practice published by the Royal Institution of Chartered Surveyors. However, you should specifically note that the floor areas contained in any report we may publish are approximate and if measured by us will be within a reasonable range of tolerance either way. In cases where the configuration of the floor plate is unusually irregular or is obstructed, this tolerance may be significant.
- 9.13 We will not be able to measure areas that we are unable to access. In these cases we may estimate floor areas from plans or by extrapolation. Where we are required to measure land or site areas, the areas will be approximate and will be measured from plans supplied or registered. They will not be physically checked on site.
- 9.14 The areas we report will be appropriate for the valuation purposes, but should not be relied upon for any other purposes.
- 9.15 Unless specifically instructed in writing to make formal searches with local planning authorities, we shall rely in the provision of our Services for a property on the information provided informally by the local planning authority or its officers. We recommend that your lawyers be instructed to confirm the planning position relating to the property and review our comments on planning in the light of their findings.
- 9.16 We may consider the possibility of alternative uses of a property being permitted. Unless otherwise notified by you in writing, we shall assume that the property and any existing buildings comply with all planning and building regulations existing uses have the benefit of appropriate planning consent or other statutory authorisation, and that no adverse planning conditions or restrictions apply.
- 9.17 We will not inspect title deeds of a property and we will therefore rely on the information supplied as being correct and complete. In the absence of information to the contrary, we will assume the absence of unusually onerous restrictions, covenants or other encumbrances and that the property has a good and marketable title. Where supplied with legal documentation, we will consider it but we will not take responsibility for the legal interpretation of it.
- 9.18 You should confirm to us in writing if you require us to read leases of a property and if so, provide all the relevant documentation within a reasonable time for consideration bearing in mind the date for receipt of our report. You should not rely upon our interpretation of the leases without first obtaining the advice of your lawyers.
- 9.19 We will take into account any information of a property that you provide concerning any tenants' improvements. Otherwise, if the extent of tenants' alterations or improvements cannot be confirmed, we will assume that the property was let with all alterations and improvements evident during our inspection (or, in the case of valuation without inspection, as described within the information that you provide).

- 9.20 Our valuation for a property will take into account potential purchasers' likely opinion of the financial strength of tenants. However, we will not undertake any detailed investigations on the covenant strength of the tenants. Unless informed to the contrary by you, we will assume that there are no significant arrears and that the tenants are able to meet their obligations under their leases or agreements.
- 9.21 Any plans we provide to you indicating the site of a property are for identification only. We will rely on our inspection and information that you provide in outlining the extent of each property, but you should not rely upon our plans to define boundaries.
- 9.22 For a recently completed development property, we will not take account of any retentions or outstanding development costs. For a property in the course of development, we will reflect your advice on the stage of construction, the costs already incurred and those still to be spent at the valuation date, and will have regard to any contractual liabilities.
- 9.23 We will not make any allowance in any valuation advice provided for the expenses of realisation or any taxation liability arising from the sale or development of the property.

Comparable

- 9.24 Where comparable evidence information is included in our report, this information is often based upon our oral enquiries and its accuracy cannot always be assured, or may be subject to undertakings as to confidentiality. However, such information would only be referred to where we had reason to believe its general accuracy or where it was in accordance with expectation.

Portfolio

- 9.25 Unless we have said otherwise in the Agreement or our report, each asset will be valued individually; in the case of a portfolio, we will assume that the assets would be marketed in an orderly way and not placed on the market at the same time.

Currency

- 9.26 We will value in the local currency. If we are to report to you in another currency, unless we have agreed otherwise we will adopt a conversion rate equivalent to the closing rate (“**spot rate**”) on the valuation date.
- 9.27 Our valuation does not make allowance either for the cost of transferring sale proceeds to another state, or for any restrictions on doing so.

Reinstatement Cost

9.28 In instances where we are instructed to provide an indication of current reinstatement cost for fire insurance purposes, this will be given solely as a guide without warranty. Formal estimates for insurance purposes can only be given by a quantity surveyor or other person with sufficient current experience of costs.

10. REGULATED PURPOSE VALUATION

10.1 In circumstances where a valuation, although provided for a client, may also be of use to third parties, for instance the shareholders in a company (known as a “**Regulated Purpose Valuation**”), we will state our policy on the rotation of the valuer who prepares the valuation and the quality control procedures that are in place.

10.2 Irrespective of the purpose of the valuation, we will select the most appropriate valuer for the valuation having regard to his/her expertise and the possible perception that independence and objectivity could be compromised where a valuer has held the responsibility for a particular client for a number of years. This may result in us rotating the valuer responsible for repeat valuations for the same client although we will not do so without prior discussion with the client.

11. TERMINATION BY NOTICE

11.1 Unless a fixed period has been agreed, either party may terminate the instruction by giving 14 days’ notice in writing to the other party.

11.2 In the event of termination by notice, you shall be obliged to pay forthwith all the fees accrued in relation to the Services and work performed up to the date of termination (and any agreed abort fee) (the “**Termination Fees**”) plus any expenses or disbursements incurred by us or to which we are committed at the date of termination.

12. PROFESSIONAL LIABILITY

12.1 Subject to the provisions in these Terms and Conditions and the Agreement, our total aggregate liability (including that of our directors and employees) to you in contract, tort (including negligence or breach of statutory duty), misrepresentation, restitution or otherwise, arising in connection with the performance or contemplated performance of the Services shall be limited to an aggregate sum not exceeding three times the fee paid for each instruction accepted. Neither party hereto shall be liable to the other for any pure economic loss, loss of profit, loss of business, depletion of goodwill, in each case whether direct, indirect or consequential, or any claims for consequential compensation whatsoever (however caused) which arise out of or in connection with the Services.

12.2 For the avoidance of doubt, our directors and employees shall have no liability in respect of their private assets.

- 12.3 Nothing in these Terms and Conditions excludes or limits our liability for (i) death or personal injury caused by our negligence (ii) any matter which it would be illegal for us to exclude or attempt to exclude our liability or (iii) fraud or fraudulent misrepresentation.
- 12.4 Where a third party has contributed to the losses, damages, costs, claims or expenses, we shall not be liable to make any contribution in respect of the liability of such third party.
- 12.5 Save in respect of third parties directly instructed by us and/or on your behalf, we shall not be liable for the services or products provided by other third parties, nor shall we be required to inspect or supervise such third parties, irrespective of the third party services or products being incidental to or necessary for the provision of our Services to you.
- 12.6 We shall be released from our obligations to the extent that performance thereof is delayed, hindered or prevented by any circumstances beyond our reasonable control (examples being a strike, act of God or act of terrorism). On becoming aware of any circumstance which gives rise, or which is likely to give rise, to any failure or delay in the performance of our obligations, we will notify you by the most expeditious method then available.
- 12.7 To cover any liability that might be incurred by us, we confirm that we will maintain professional indemnity insurance through a third party insurance company.
- 12.8 Our pricing structure has been established by reference to these limitations on our liability and our level of professional indemnity insurance in respect of the Services we provide. If you feel that it is necessary to discuss with us a variation in these levels, then please raise the issue to us and we may revise the pricing structure to reflect the varied level of our liability or professional indemnity cover.
- 12.9 Responsibility for our valuation extends only to the party(ies) to whom it is addressed. However in the event of us being asked by you to readdress our report to another party or other parties or permit reliance upon it by another party or other parties, we will give consideration to doing so, to named parties, subject to an additional fee to be proposed by us.
- 12.10 Where we consent to reliance on our report by another party or other parties, we do so on the basis that these terms and conditions will apply to the new addressee(s) as if it/they had been a party to the original letter of instruction between us. Where we consent to such reliance, you agree to furnish the addressee with a copy of any reliance letter issued by us and/or a copy of these terms and conditions.
- 12.11 Where you provide a copy of and/or permit another party or parties, other than your affiliates, to rely upon our report without obtaining our express written consent (in accordance with clause 12.5 above), you agree to indemnify us (subject to Section 12.1 hereof) for any and all liability which arises from the use of or reliance upon our report by such unauthorised party.

13. QUALITY OF SERVICE

13.1 All our reports are signed by a qualified professional of the Firm whose responsibility it is to ensure that all relevant quality control procedures have been complied with.

13.2 While we seek to provide high quality Services, if a client has cause for complaint we have the Standard Complaint Handling Procedure to cope with that.

14. DATA PROTECTION

14.1 We are a data controller of all personal data collected during the provision of the Services. We shall use such personal data and information we obtain from other sources for providing the Services, for administration and customer services, for marketing and to analyse your preferences. We may keep such personal data for a reasonable period for these purposes. We may need to share personal data with our service providers and agents for these purposes. We may disclose personal data in order to comply with a legal or regulatory obligation and you may request, in writing and upon payment of a fee, a copy of the details held about you by us.

14.2 To help us to make credit decisions about you, to prevent fraud, to check identity and to prevent money laundering, we may search the files of credit reference agencies and we may also disclose details of how you conduct your account to such agencies.

14.3 We may share personal data within our international partnerships, group companies and affiliated organisations and with our business partners for marketing purposes, which may be to countries or jurisdictions which do not provide the same level of data protection as the country in which you are based, or we may send you and your employees information about other organisations' goods and services. We or any business partners may contact you and your employees, directly or via our agents, by mail, telephone, fax, email, SMS or other electronic messaging service with offers of goods and services or information that may be of interest. By providing us with your or your employees' personal data (whether that data is deemed sensitive or not) including fax numbers, telephone numbers or email addresses, you and your employees consent to being contacted by these methods for these purposes.

15. MONEY LAUNDERING REGULATIONS

15.1 You are aware that legislation and related guidance as updated from time to time, has imposed on us obligations for mandatory reporting, record keeping and identification procedures. We may be required to verify certain particulars of our clients and may need to ask you to assist us in complying with such requirements. Where such information is requested, you will provide such information promptly to enable us to proceed to provide our Services. We shall not be liable to you or any other parties for any delay in the performance or any failure to perform the Services which may be caused by our duty to comply with such requirements.

16. FREEDOM OF INFORMATION

16.1 Where you are a public authority, you shall notify us within five business days of receiving a request to disclose information which relates to the business arrangements between us and you and/or any information we have provided to you at any time. In recognition of the fact that we may be providing you with genuinely confidential or commercially sensitive information, you agree to consult us and seek our views on all such requests prior to making a decision on whether any information should be publicly disclosed.

17. ELECTRONIC COMMUNICATIONS

17.1 We may communicate with each other by electronic mail, sometimes attaching electronic data. By consenting to this method of communication, we and you accept the inherent risks (including the security risks of interception of, or unauthorised access to, such communications, the risks of corruption of such communications and the risks of viruses or other harmful devices). In the event of a dispute, neither of us will challenge the legal evidential standing of an electronic document and our system shall be deemed to be the definitive record of electronic communications and documentation.

18. CONFIDENTIALITY AND INTELLECTUAL PROPERTY

18.1 We owe our clients a duty of confidentiality. You agree, however, that we may, when required by our insurers or other advisers, provide details to them of any engagement on which we have acted for you, and that we may also disclose confidential information relating to your affairs if required to do so for legal, regulatory or insurance purposes only.

18.2 Both parties agree never to disclose sensitive details of transactions or our advice without the other's consent. Unless we are expressly bound by a duty of confidentiality which otherwise overrides this, both parties shall be entitled to mention to third parties (e.g. in the course of presentations, speeches or pitches) and/or publish (e.g. in brochures, marketing or other written material) that we provide our services to you.

18.3 We shall provide the Services to you only for your sole use and for the stated purpose. We shall not be liable to any third party in respect of our Services. You shall not mention nor refer to our advice, in whole or in part, to any third party orally or in annual accounts or other document, circular or statement without our prior written approval. The giving of an approval shall be at our sole discretion.

18.4 We will not approve any mention of our Services unless it contains sufficient reference to all the special assumptions and/or limitations (if any) to which our Services are subject. For the avoidance of doubt our approval is required whether or not we are referred to by name and whether or not our advice is combined with others.

18.5 We may make the approval of any mention of our Services, or re-address to third parties our Services, subject to the payment of an additional fee to cover additional work and professional liability.

18.6 All intellectual property rights (including copyrights) in the documents, materials, records, data and information in any form developed or provided to you by us or otherwise generated in the provision of our Services shall belong to us solely.

19. THIRD PARTIES RIGHTS AND ASSIGNMENT

19.1 No term of the Agreement or these Terms and Conditions is intended to confer a benefit on or to be enforceable by any person who is not a party to the same.

19.2 Neither party shall be entitled to assign this contract or any rights and obligations arising from it without the prior written consent of the other, such consent not to be unreasonably withheld.

20. GENERAL

20.1 If any provision of the Terms and Conditions is found by any court, tribunal or administrative body of competent jurisdiction to be wholly or partly illegal, invalid, void, voidable, unenforceable or unreasonable, it shall to the extent of such illegality, invalidity, voidness, voidability, unenforceability or unreasonableness be deemed severable and the remaining provisions of the Terms and Conditions and the remainder of such provision shall continue in full force and effect.

20.2 Failure or delay by us in enforcing or partially enforcing any provision of these Terms and Conditions shall not be construed as a waiver of any of our rights under these Terms and Conditions.

20.3 The Agreement and these Terms and Conditions shall be governed by and be construed in accordance with the law of the place at where the Agreement is effective. Any dispute arising out or in connection with the Services shall be submitted to the exclusive jurisdiction of the relevant courts of that place.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and 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 is 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) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares and underlying shares of the Company

Name of Director	Capacity	Number of Shares held	Approximate percentage of the shares in the Company in issue^(Note 2)
Mr. Zhao Juanxian ^(Note 1) (alias, Zhao Junxian)	Person acting in concert	546,728,004	25.56%
Mr. Li Zhong	Beneficial owner	10,000,000	0.47%
Ms. Liu Yujie	Beneficial owner	10,000,000	0.47%
Mr. Duan, Jerry Linnan	Beneficial owner	10,000,000	0.47%
Mr. Chau Kam Wing	Beneficial owner	2,000,000	0.09%
Mr. Chang Qing	Beneficial owner	2,000,000	0.09%
Mr. Peng Yongzhen	Beneficial owner	2,000,000	0.09%

Notes:

- (1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, being the son of Mr. Zhao Juanxian, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.
- (2) The percentage is based on the total number of Shares in issue as at the Latest Practicable Date (i.e. 2,139,735,000 Shares)

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company held any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and other persons' interests or short position in the securities of the Company and its associated corporations

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general

meetings of any member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital:

Interest in Shares and underlying shares of the Company

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of the shares in the Company in issue ^(Note 2)
China Water Affairs Group Limited ^(Notes 1 and 5)	Interest in controlled corporation	953,119,996 (L)	44.54%
Sharp Profit Investments Limited ^(Notes 1 and 5) ("Sharp Profit")	Beneficial owner	953,119,996 (L)	44.54%
Mr. Zhao Sizhen ^(Note 2)	Interest in controlled corporation	543,828,004 (L)	25.42%
	Beneficial owner	2,900,000 (L)	0.14%
Kangda Holdings Company Limited ^(Note 3)	Beneficial owner	543,828,004 (L)	25.42%
BPEA V Holding (5) Limited ^(Notes 4 and 5) ("BPEA V")	Beneficial owner	344,129,996 (L)	16.08%
	Beneficial owner	344,129,996 (S)	16.08%
BPEA Private Equity Fund V, L.P. ^(Notes 4 and 5)	Interest in controlled corporation	344,129,996 (L)	16.08%
	Interest in controlled corporation	344,129,996 (S)	16.08%
BPEA Private Equity GP V, L.P. ^(Notes 4 and 5)	Interest in controlled corporation	344,129,996 (L)	16.08%
	Interest in controlled corporation	344,129,996 (S)	16.08%
BPEA Private Equity GP V Limited ^(Notes 4 and 5)	Interest in controlled corporation	344,129,996 (L)	16.08%
	Interest in controlled corporation	344,129,996 (S)	16.08%
BPEA EQT Holdings AB ^(Notes 4 and 5) ("BPEA EQT")	Interest in controlled corporation	344,129,996 (L)	16.08%
	Interest in controlled corporation	344,129,996 (S)	16.08%
EQT AB ^(Notes 4 and 5)	Interest in controlled corporation	344,129,996 (L)	16.08%
	Interest in controlled corporation	344,129,996 (S)	16.08%

Notes:

1. Sharp Profit is wholly owned by China Water Affairs. China Water Affairs is therefore deemed to be interested in Sharp Profit's interests in the Company under the SFO.
2. By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.
3. Kangda Holdings Company Limited is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the shares held by Kangda Holdings Company Limited under the SFO.
4. BPEA V is held as to approximately 99.35% by BPEA Private Equity Fund V, L.P. BPEA Private Equity GP V, L.P., is the general partner of BPEA Private Equity Fund V, L.P. BPEA EQT is the sole shareholder of BPEA Private Equity GP V Limited, the general partner of BPEA Private Equity GP V, L.P. BPEA EQT is wholly owned by EQT AB, which is listed on Nasdaq Stockholm. Each of BPEA Private Equity Fund V, L.P., BPEA Private Equity GP V, L.P., BPEA Private Equity GP V Limited, BPEA EQT and EQT AB is deemed to be interested in BPEA V's interests in the Company.
5. On 8 May 2020, BPEA V issued exchangeable bonds with principal amount of HK\$361,336,495.8 to Sharp Profit ("**Exchangeable Bonds**"), which entitled the holder of the Exchangeable Bonds to exchange for 344,129,996 shares of the Company (at the initial exchange price of HK1.05 per share of the Company) beneficially owned by BPEA V. As at the Latest Practicable Date, Sharp Profit beneficially owned 608,990,000 shares of the Company and is the holder of the Exchangeable Bonds with principal amount of HK\$361,336,495.8 which are exchangeable into 344,129,996 shares of the Company beneficially owned by BPEA V.
6. The shareholding percentage in the Company is calculated on the basis of 2,139,735,000 Shares in issue as at the Latest Practicable Date.
7. The letter "L" denotes a long position in the Shares and the letter "S" denotes a short position in the Shares.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Director or their respective close associates had any interest in a business which competes or may compete either directly or indirectly with the business of the Group.

5. INTERESTS IN CONTRACTS, ASSETS AND ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in any assets which had been or are proposed to be acquired, disposed of by or leased to, any member of the Group, since 31 December 2022, being the date to which the latest published audited consolidated accounts of the Group were made up.

Save for the Equity Transfer Agreement, particulars of which are disclosed in the Letter from the Board contained in this circular, in which Mr. Li Zhong, Mr. Duan Jerry Linnan, Ms. Liu Yujie and Mr. Chau Kam Wing are considered to be interested, as at the Latest Practicable Date, none of the Directors and their respective associates was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

6. LITIGATION AND ARBITRATION

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

7. EXPERT AND CONSENT

The following is the qualification of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Advent Corporate Finance Limited	A licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Vincorn Consulting and Appraisal Limited	Independent valuer

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 reports and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

8. MATERIAL CONTRACTS

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

- (a) the Equity Transfer Agreement; and
- (b) the finance lease agreement dated 24 November 2023 entered into between Canton Greengold Financial Leasing Ltd.* (廣東綠金融租賃有限公司) and Meiling Environmental Technology (Zibo) Co., Ltd* (美陵環境科技(淄博)有限公司), an indirectly wholly-owned subsidiary of the Company, in relation to the transfer of ownership and leaseback of sewage treatment facilities situated at Zibo City in Shandong Province, the PRC, and such agreements incidental to the finance lease agreement.

* For identification purpose only

9. GENERAL

- (a) The secretary of the Company is Mr. Wong Wan Sing. He is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The headquarters and principal place of business of the Company in the PRC is situated at No. 72 Avenue of Stars, High-Tech Park, North New Zone, Chongqing, the PRC.
- (d) The principal place of business of the Company in Hong Kong is situated at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (e) The Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (f) In the event of any inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

10. DOCUMENTS ON DISPLAY

The following documents are published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.kangdaep.com from the date of this circular to and including the date of the EGM:

- (a) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 32 of this circular;
- (b) the valuation report on the Target Company, the text of which is set out in Appendix II to this circular;
- (c) the written consent referred to in the section headed "7. Expert and consent" in this appendix;
- (d) the material contracts referred to in the paragraph headed "8. Material contracts" in this appendix; and
- (e) this circular.

NOTICE OF EGM



KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Kangda International Environmental Company Limited (the “**Company**”) will be held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 27 December 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution to be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the Equity Transfer Agreement (as defined in the circular of the Company dated 8 December 2023 of which this notice forms part (the “**Circular**”)) (a copy of which is tabled at the Meeting and marked “**A**” and initialled by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and
- (b) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Equity Transfer Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

By order of the Board

Kangda International Environmental Company Limited

Mr. Li Zhong

Co-Chairman

Hong Kong, 8 December 2023

NOTICE OF EGM

*Principal Place of
Business in Hong Kong:*
Suite 6409, 64/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Registered Office:
Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Notes:

1. A form of proxy for the Meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (i.e. no later than Monday, 25 December 2023 at 10:00 a.m (Hong Kong time)) or any adjournment thereof (as the case may be).
5. Completion and return of a form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof (as the case may be) should the member so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be Wednesday, 27 December 2023. All transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 19 December 2023.
8. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will publish an announcement on the website of the Company at www.kangdaep.com and on the website of the Stock Exchange at www.hkexnews.hk to notify the members of the Company of the date, time and venue of the rescheduled meeting.
9. As at the date of this notice, the board of directors of the Company comprises seven directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yujie and Mr. DUAN, Jerry Linnan as executive directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive directors.