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

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**If you are in any doubt about this circular** or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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YUNNAN WATER

雲南水務投資股份有限公司  
**Yunnan Water Investment Co., Limited\***

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

**(Stock code: 6839)**

**MAJOR TRANSACTION  
DISPOSAL OF THE DISPOSAL EQUITIES**

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\* For identification purposes only

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## DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a limited liability company established in the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 300070)
“Board”	the board of Directors of the Company
“Caiyun International”	Caiyun International Investment Limited (彩雲國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of YHTH
“Company”	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, its H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839.HK)
“Completion Date”	the date on which the equity transfer registration is completed
“Director(s)”	the director(s) of the Company
“Disposals”	the Wuxi Zhongfa Disposal, Wuxi Yunshui Disposal and Ehu Yunshui Disposal
“Disposal Equities”	the 75% equity interest in Wuxi Zhongfa, the 100% equity interest in Wuxi Yunshui and the 100% equity interest in Ehu Yunshui held by the Company
“Disposal Entities”	Wuxi Zhongfa, Wuxi Yunshui and Ehu Yunshui
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Ehu Yunshui”	Wuxi Ehu Yunshui Water Investment Co., Ltd.* (無錫鵝湖雲水水務投資有限公司), a company incorporated in the PRC with limited liability
“Ehu Yunshui Disposal”	the disposal of 100% equity interest in Ehu Yunshui by the Company to the Purchaser in accordance with the terms and conditions of the Ehu Yunshui Equity Transaction Agreement
“Ehu Yunshui Equity Transaction Agreement”	the agreement dated 24 June 2024, entered into between the Vendor and the Purchaser in relation to the Ehu Yunshui Disposal

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## DEFINITIONS

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“Equity Transaction Agreements”	the Wuxi Zhongfa Equity Transaction Agreement, the Wuxi Yunshui Equity Transaction Agreement, the Ehu Yunshui Equity Transaction Agreement and its supplemental agreement
“Green Environmental Protection”	Yunnan Green Environmental Protection Industry Group Co., Ltd.* (雲南省綠色環保產業集團有限公司) (formerly known as Yunnan Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司)), a limited liability company established in the PRC, the Company’s controlling shareholder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars
“Independent Valuer”	Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司), an independent PRC valuer
“Latest Practicable Date”	23 July 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Public Tender”	the public tender for the Disposals through YNEX
“Purchaser”	Wuxi Pinghu Jingshui Technology Co., Ltd.* (無錫坪湖淨水科技有限公司), a limited liability company incorporated in the PRC and the purchaser under the Equity Transaction Agreements
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	the Domestic Shares and/or H Shares

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## DEFINITIONS

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“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Reference Date”	31 December 2022, being the reference date of the Valuation Reports
“Valuation Reports”	the valuation reports of the Disposal Equities dated 20 December 2023 prepared by the Independent Valuer, full text of which is set out in Appendix II, III and IV to this circular
“Wuxi Yunshui”	Wuxi Yunshui Water Investment Co., Ltd.* (無錫雲水水務投資有限公司), a company incorporated in the PRC with limited liability
“Wuxi Yunshui Disposal”	the disposal of 100% equity interest in Wuxi Yunshui by the Company to the Purchaser in accordance with the terms and conditions of the Wuxi Yunshui Equity Transaction Agreement
“Wuxi Yunshui Equity Transaction Agreement”	the agreement dated 24 June 2024, entered into between the Vendor and the Purchaser in relation to the Wuxi Yunshui Disposal
“Wuxi Zhongfa”	Wuxi Zhongfa Water Investment Co., Ltd.* (無錫中發水務投資有限公司), a company incorporated in the PRC with limited liability
“Wuxi Zhongfa Disposal”	the disposal of 75% equity interest in Wuxi Zhongfa by the Company to the Purchaser in accordance with the terms and conditions of the Wuxi Zhongfa Equity Transaction Agreement
“Wuxi Zhongfa Equity Transaction Agreement”	the agreement dated 24 June 2024, entered into between the Vendor and the Purchaser in relation to the Wuxi Zhongfa Disposal
“YHTH”	Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (formerly known as Yunnan Metropolitan Construction Investment Co., Ltd.* (雲南省城市建設投資集團有限公司)), a limited liability company established in the PRC and the sole shareholder of Green Environmental Protection, the Company’s controlling shareholder
“YNEX”	Yunnan Equity Exchange Co., Ltd.
“%”	percentage

\* For identification purposes only

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## LETTER FROM THE BOARD

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YUNNAN WATER

# 雲南水務投資股份有限公司 Yunnan Water Investment Co., Limited\*

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

**(Stock code: 6839)**

**Executive Directors:**

Mr. Zheng Guangfeng

*(Vice Chairman, General Manager)*

Mr. Liu Hui

Mr. Zhou Zhimi

**Non-executive Directors:**

Mr. Mei Wei *(Chairman)*

Mr. Dai Richeng

Mr. Chen Yong

**Independent Non-executive Directors:**

Mr. Liu Shuen Kong

Mr. Zhong Wei

Mr. Zhou Beihai

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

Yunnan Water

2089 Haiyuan Bei Road

Gaoxin District

Kunming, Yunnan

PRC

**Principal place of business in Hong Kong:**

Suites 3110-11, 31/F, Tower 1

The Gateway, Harbour City

25 Canton Road, Tsim Sha Tsui, Kowloon

Hong Kong

26 July 2024

*To the Shareholders*

Dear Sir or Madam,

## MAJOR TRANSACTION DISPOSAL OF THE DISPOSAL EQUITIES

### INTRODUCTION

Reference is made to the announcements of the Company dated 27 December 2023, 24 June 2024 and 16 July 2024 in relation to the Disposals.

The purpose of this circular is to provide you with, among other things, further details of the Disposals.

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## LETTER FROM THE BOARD

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### A. THE DISPOSALS

On 24 June 2024 (after trading hours), the Company (as vendor) and the Purchaser (as purchaser) entered into: (a) the Wuxi Zhongfa Equity Transaction Agreement, pursuant to which, the Company agreed to sell, and the Purchaser agreed to acquire, 75% equity interest in Wuxi Zhongfa at a consideration of RMB95,900,625; (b) the Wuxi Yunshui Equity Transaction Agreement, pursuant to which, the Company agreed to sell, and the Purchaser agreed to acquire, 100% equity interest in Wuxi Yunshui at a consideration of approximately RMB57,046,016; and (c) the Ehu Yunshui Equity Transaction Agreement, pursuant to which, the Company agreed to sell, and the Purchaser agreed to acquire, 100% equity interest in Ehu Yunshui at a consideration of RMB18,440,300. Upon completion of the Disposals, the Company will cease to have any equity interests in the Disposal Entities.

The principal terms of the Equity Transaction Agreements are summarized as follows:

#### THE WUXI ZHONGFA EQUITY TRANSACTION AGREEMENT

**Date:** 24 June 2024 (after trading hours)

**Parties:** (i) Vendor: the Company; and  
(ii) Purchaser: the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

#### Disposal Interest

Pursuant to the Wuxi Zhongfa Equity Transaction Agreement, the Company has agreed to sell, and the Purchaser has agreed to acquire, 75% interest in Wuxi Zhongfa.

#### Consideration, Payment Terms and Basis of Determining the Consideration

The Company has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Wuxi Zhongfa Disposal is approximately RMB95,900,625, which was determined with reference to the appraised value of Wuxi Zhongfa as at 31 December 2022 by an independent PRC valuer using the income approach.

#### Payment Method of the Consideration

The Purchaser shall:

- (i) pay 30% of the consideration to the designated escrow account of YNEX within five working days of signing the Wuxi Zhongfa Equity Transaction Agreement; and

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## LETTER FROM THE BOARD

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- (ii) pay the remaining 70% of the consideration to the designated bank account of the Company within one year of signing the Wuxi Zhongfa Equity Transaction Agreement.

### **Equity Transfer and Registration**

The Company, the Purchaser and Wuxi Zhongfa shall complete the equity registration procedures within 10 business days after all the conditions precedent of the equity registration procedures have been fulfilled.

### **Effective Date of the Wuxi Zhongfa Equity Transaction Agreement**

The Wuxi Zhongfa Equity Transaction Agreement shall be effective from the date on which the Company has obtained approval from its relevant decision-making body and the State-Owned Assets Administration Department.

### **Claims and Debts of Wuxi Zhongfa**

Wuxi Zhongfa shall continue to subsist all its claims and debts vis-à-vis the Company and its affiliated companies after completion of the Wuxi Zhongfa Disposal.

From Completion Date, the Purchaser shall provide guarantee (in proportion to its equity in Wuxi Zhongfa) for the debts owed by Wuxi Zhongfa to the Company and its affiliated companies. As at 31 March 2024, the amount owed by Wuxi Zhongfa to the Company and its affiliated companies was approximately RMB144,457,550. On the other hand, the Company shall also provide guarantee for the debts owed by the Company and its affiliated companies to Wuxi Zhongfa. As at 31 March 2024, the amount owed by the Company and its affiliated companies to Wuxi Zhongfa was approximately RMB49,353,744. The final settlement of debts and claims shall be performed in accordance with their respective contracts. If the contracts expire, they shall be extended according to the original contract terms until the debts and claims are settled. If settlement is not completed within the agreed period, the Company and/or the Purchaser shall pay the relevant debt to the other party. Such debts will be calculated on a daily basis based on five-year loan prime rate until the date of repayment.

### **Completion of the Wuxi Zhongfa Disposal**

Completion of the Wuxi Zhongfa Disposal is conditional on the obtaining and completion of all necessary authorization, approval and internal company decision-making procedures, including the completion of guarantee procedures regarding the provision of guarantees by the Company and the Purchaser. The Wuxi Zhongfa Disposal is conditional on approval by the Company's shareholders. As at the Latest Practicable Date, all the conditions for the Wuxi Zhongfa Disposal pursuant to the Wuxi Zhongfa Equity Transaction Agreement have been fulfilled.



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## LETTER FROM THE BOARD

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### THE WUXI YUNSHUI EQUITY TRANSACTION AGREEMENT

**Date:** 24 June 2024 (after trading hours)

**Parties:** (i) Vendor: the Company; and

(ii) Purchaser: the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

#### Disposal Interest

Pursuant to the Wuxi Yunshui Equity Transaction Agreement, the Company has agreed to sell, and the Purchaser has agreed to acquire, 100% interest in Wuxi Yunshui.

#### Consideration, Payment Terms and Basis of Determining the Consideration

The Company has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Wuxi Yunshui Disposal is approximately RMB57,046,016 which, which was determined with reference to the appraised value of Wuxi Yunshui as at 31 December 2022 by an independent PRC valuer using the income approach.

#### Payment Method of the Consideration

The Purchaser shall:

- (i) pay 30% of the consideration to the designated escrow account of YNEX within five working days of signing the Wuxi Yunshui Equity Transaction Agreement; and
- (ii) pay the remaining 70% of the consideration to the designated bank account of the Company within one year of signing the Wuxi Yunshui Equity Transaction Agreement.

#### Equity Transfer and Registration

The Company, the Purchaser and Wuxi Yunshui shall complete the equity registration procedures within 10 business days after all the conditions precedent of the equity registration procedures have been fulfilled.

#### Claims and Debts of Wuxi Yunshui

Wuxi Yunshui shall continue to subsist all its claims and debts vis-à-vis the Company and its affiliated companies after completion of the Wuxi Yunshui Disposal.

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## LETTER FROM THE BOARD

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From Completion Date, the Purchaser shall provide guarantee (in proportion to its equity in Wuxi Yunshui) for the debts owed by Wuxi Yunshui to the Company and its affiliated companies. As at 31 March 2024, the amount owed by Wuxi Yunshui to the Company and its affiliated companies was approximately RMB970,647. On the other hand, the Company shall also provide guarantee for the debts owed by the Company and its affiliated companies to Wuxi Yunshui. As at 31 March 2024, the amount owed by the Company and its affiliated companies to Wuxi Yunshui was approximately RMB25,001,540. The final settlement of debts and claims shall be performed in accordance with their respective contracts. If the contracts expire, they shall be extended according to the original contract terms until the debts and claims are settled. If settlement is not completed within the agreed period, the Company and/or the Purchaser shall pay the relevant debt to the other party. Such debts will be calculated on a daily basis based on five-year loan prime rate until the date of repayment.

### **Effective Date of the Wuxi Yunshui Equity Transaction Agreement**

The Wuxi Yunshui Equity Transaction Agreement shall be effective from the date on which the Company has obtained approval from its relevant decision-making body and the State-Owned Assets Administration Department.

### **Completion of the Wuxi Yunshui Disposal**

Completion of the Wuxi Yunshui Disposal is conditional on the obtaining and completion of all necessary authorization, approval and internal company decision-making procedures, including the completion of guarantee procedures regarding the provision of guarantees by the Company and the Purchaser. The Wuxi Yunshui Disposal is conditional on approval by the Company's shareholders. As at the Latest Practicable Date, all the conditions for the Wuxi Yunshui Disposal pursuant to the Wuxi Yunshui Equity Transaction Agreement have been fulfilled.

### **THE EHU YUNSHUI EQUITY TRANSACTION AGREEMENT**

**Date:** 24 June 2024 (after trading hours)

**Parties:** (i) Vendor: the Company; and  
(ii) Purchaser: the Purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

### **Disposal Interest**

Pursuant to the Ehu Yunshui Equity Transfer Agreement, the Company has agreed to sell, and the Purchaser has agreed to acquire, 100% interest in Ehu Yunshui.

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## LETTER FROM THE BOARD

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### **Consideration, Payment Terms and Basis of Determining the Consideration**

The Company has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Ehu Yunshui Disposal is approximately RMB18,440,300 which, which was determined with reference to the appraised value of Ehu Yunshui as at 31 December 2022 by an independent PRC valuer using the income approach.

### **Payment Method of the Consideration**

The Purchaser shall:

- (i) pay 30% of the consideration to the designated escrow account of YNEX within five working days of signing the Ehu Yunshui Equity Transaction Agreement; and
- (ii) pay the remaining 70% of the consideration to the designated bank account of the Company within one year of signing the Ehu Yunshui Equity Transaction Agreement.

### **Equity Transfer and Registration**

The Company, the Purchaser and Ehu Yunshui shall complete the equity registration procedures within 10 business days after all the conditions precedent of the equity registration procedures have been fulfilled.

### **Claims and Debts of Ehu Yunshui**

Ehu Yunshui shall continue to subsist all its claims and debts vis-à-vis the Company and its affiliated companies after completion of the Ehu Yunshui Disposal.

From Completion Date, the Purchaser shall provide guarantee (in proportion to its equity in Ehu Yunshui) for the debts owed by Ehu Yunshui to the Company and its affiliated companies. As at 31 March 2024, the amount owed by Ehu Yunshui to the Company and its affiliated companies was approximately RMB2,067,767. On the other hand, the Company shall also provide guarantee for the debts owed by the Company and its affiliated companies to Ehu Yunshui. As at 31 March 2024, the amount owed by the Company and its affiliated companies to Ehu Yunshui was approximately RMB9,214,008. The final settlement of debts and claims shall be performed in accordance with their respective contracts. If the contracts expire, they shall be extended according to the original contract terms until the debts and claims are settled. If settlement is not completed within the agreed period, the Company and/or the Purchaser shall pay the relevant debt to the other party. Such debts will be calculated on a daily basis based on five-year loan prime rate until the date of repayment.

### **Effective Date of the Ehu Yunshui Equity Transaction Agreement**

The Ehu Yunshui Equity Transaction Agreement shall be effective from the date on which the Company has obtained approval from its relevant decision-making body and the State-Owned Assets Administration Department.

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## LETTER FROM THE BOARD

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### **Completion of the Ehu Yunshui Disposal**

Completion of the Ehu Yunshui Disposal is conditional on the obtaining and completion of all necessary authorization, approval and internal company decision-making procedures, including the completion of guarantee procedures regarding the provision of guarantees by the Company and the Purchaser. The Ehu Yunshui Disposal is conditional on approval by the Company's shareholders. As at the Latest Practicable Date, all the conditions for the Ehu Yunshui Disposal pursuant to the Ehu Yunshui Equity Transaction Agreement have been fulfilled.

### **DETERMINATION OF CONSIDERATION**

The consideration of the Disposals is determined through the Public Tender. The Valuation Reports were prepared for the purpose of the Public Tender in compliance with the relevant PRC laws and regulations governing the transactions of State-owned assets. After selection of the Valuation Reference Date (i.e. 31 December 2022), the Independent Valuer had to conduct procedures including on-site investigation, information collection, and analysis and assessment to prepare the draft Valuation Report, which was then provided to the Company for its internal approval process before submission to the responsible State-owned assets administration department for appraisal filing. The responsible State-owned assets administration department reviewed the appraisal filing of the draft Valuation Reports in accordance with the regulatory prescribed procedures including independent review by five asset appraisal experts. The Company and the Independent Valuer then responded to the review opinions of the aforesaid asset appraisal experts. After all the aforesaid asset appraisal experts were satisfied with the responses, the responsible State-owned assets administration department approved the appraisal filing of the draft Valuation Reports. The Independent Valuer thereafter issued the Valuation Reports (dated 20 December 2023) for the Public Tender with the appraised values of the Valuation Reports determining the minimum consideration for the Disposals.

The Independent Valuer has adopted the income approach in the valuations of the Disposal Equities. For details of the appraised values of the Disposal Equities including the principal assumptions and inputs, please refer to the extracts of the Valuation Reports as contained in Appendices II, III and IV to this circular. The Directors consider that there has been no there has been no material fluctuations in the parameters, in particular the consolidated water price, of the Valuation Reports and the market condition from the Valuation Reference Date up to the Latest Practicable Date. Furthermore, the appraisal value only determined the minimum consideration of the Disposals in the Public Tender while the consideration of the Disposals was determined through the Public Tender based on the final bidding price of the Public Tender (which shall not be less than the minimum consideration). Since the Purchaser was the only qualified bidder in the Public Tender, the consideration for the Disposals was finally determined at the minimum consideration and hence equivalent to the appraised values of the Disposal Equities in the Valuation Reports. In view of the above, the Directors consider that the appraised values of the Valuation Reports are appropriate in determining the consideration of the Disposals.

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## LETTER FROM THE BOARD

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### PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

The valuations of the Disposal Equities (the “**Valuation**”) was conducted by Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) (the “**Valuer**”), an independent PRC valuer, using the income approach. Accordingly, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

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

#### **Basic Assumptions regarding the Disposal Entities**

##### ***1. Transaction Assumption***

The transaction assumption assumes that all the assets and liabilities to be valued are in the course of transaction and the valuation assessed by the Valuer is based on a simulated market which involves the transaction conditions of the assets to be valued. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

##### ***2. Open Market Assumption***

The open market assumption assumes that the parties to the assets transaction or the proposed assets transaction in the market have equal bargaining power and have the opportunities and time to obtain sufficient market information in order to make a rational judgment on the assets, including their functions, uses and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

##### ***3. Asset Going-concern Assumption***

The asset going-concern assumption means that the valuation method, parameters and basis shall be determined on the premise that the valued assets will be continuously used in consistence with their current functions and methods, scale, frequency and environment of application, or used on the basis of certain changes thereof.

##### ***4. Corporate Going-concern Assumption***

The corporate going-concern assumption assumes that businesses of the valued entities will continuously operate and maintain the same operation method as it currently operates.

#### **General Assumptions regarding the Disposal Entities**

1. From the valuation reference date, there are no significant changes in the macro environment, that is, the political, economic and social environment, etc. of the appraised entity’s principal place of business and the region in which its business is conducted.

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## LETTER FROM THE BOARD

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2. Except those laws, rules and regulations already enacted or enacted but not yet enforced by the government of the appraised entity's principal place of business and the region in which its business is conducted on or before the valuation reference date, there are no significant changes in such laws, rules and regulations that may materially and adversely affect the appraised entity and its business operation during the income period.
3. From the valuation reference date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material adverse effects on the business condition of the appraised entity during the income period (considering the changes to the currency exchange rate between the valuation reference date and the valuation report date).
4. From the valuation reference date, there are no material adverse effects on the appraised entity caused by other force majeure factors beyond the control of human and unforeseeable factors.
5. The appraised entity and all assets of the appraised entity will continue to be used in accordance with the current purpose and manner in the income forecast period.
6. The accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the valuation reference date in all material respects.
7. The appraised entity and the business operation of the appraised entity will fulfill all legal and regulatory requirements necessary to conduct its business during the income forecast period.
8. The management of the appraised entity is diligent and responsible, with adequate management skills and good professional ethics; and during the income forecast period, subject to the key management personnel and technical staff on the valuation reference date, there are no significant changes that may affect the business operation of the appraised entity, that the management team will develop stably, and there are no significant changes to the management policies that may affect the business operation of the appraised entity.
9. The information provided by the principal and the appraised entity are true, complete, reliable, with no reason to suspect that any material information has been withheld or omitted, and it is assumed that defected matters or contingent matters that may affect valuation result may not be detected even if the valuer has performed all necessary valuation procedures.
10. There will be no litigation, pledge or guarantee etc., that will cause material adverse effect to the business performance of the appraised entity during the income forecast period.

### **Specific Assumptions regarding Wuxi Yunshui and Ehu Yunshui**

1. Except with evidence that there will be material change to the fixed asset investment on the valuation reference date, there will be no significant investment activities on fixed assets that will cause material adverse effects in the business operation of the appraised entity during the income forecast period, the production capacity of the entity's products will be evaluated on the valuation reference date.

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## LETTER FROM THE BOARD

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2. The valuation does not include any effects/changes on the value of the appraised entity caused by its investment of outbound/foreign investment after the valuation reference date.
3. The net profit (after taxation) and the revenue of the appraised entity will remain consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period.
4. The turnover of receivables and payables shall remain consistent during the income forecast period in comparison to the settlement history, where no significant difference in default during the income forecast period in comparison to the settlement history.
5. The cash inflow and cash outflow will occur regularly during the income forecast period, and not to recognize revenue during a single point in time in a financial year.

### **Specific Assumptions regarding Wuxi Zhongfa**

1. Except with evidence that there will be material change to the fixed asset investment on the valuation reference date, there will be no significant investment activities on fixed assets that will cause material adverse effects in the business operation of the appraised entity during the income forecast period, the production capacity of the entity's products will be evaluated on the valuation reference date.
2. The valuation does not include any effects/changes on the value of the appraised entity caused by its investment of outbound/foreign investment after the valuation reference date.
3. The net profit (after taxation) and the revenue of the appraised entity will remain consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period.
4. The turnover of receivables and payables shall remain consistent during the income forecast period in comparison to the settlement history, where no significant difference in default during the income forecast period in comparison to the settlement history.
5. The cash inflow and cash outflow will occur regularly during the income forecast period, and not to recognize revenue during a single point in time in a financial year.
6. The water price adjustment of sewage treatment in accordance with the internal policy of Wuxi Zhongfa will begin on 1 April 2024.

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

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## LETTER FROM THE BOARD

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### INFORMATION OF THE PURCHASER

The Purchaser was incorporated in the PRC in June 2020 and is principally engaged in sewage treatment and recycling, water environment pollution prevention and control services, and intelligent water system development. The Purchaser is wholly-owned by Wuxi Xishan Environmental Protection Energy Group Co., Ltd.\* (無錫市錫山環保能源集團有限公司), which in turn is controlled by the People's Government of Xishan District of Wuxi City (無錫市錫山區人民政府)

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

### INFORMATION OF THE GROUP

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

### INFORMATION OF THE DISPOSAL ENTITIES

#### Wuxi Zhongfa

Wuxi Zhongfa is a company incorporated in the PRC with limited liability and, as at the date of this announcement, is owned as to 75% by the Company and 25% by Chen Zirong (陳子榮), a third party which is independent of the Company and its connected person. The principal business of Wuxi Zhongfa is investment in and construction, operation and management of environment governance projects using self-owned capital, development and sale of green products and ordinary freight (projects required approval according to law shall operate only after approval by relevant departments).

Set out below is the key audited financial information for the financial years ended 31 December 2022 and 2023 of Wuxi Zhongfa, prepared according to the PRC accounting standards:

	For the year ended / As at	
	31 December 2022	31 December 2023
	(audited)	(audited)
	(RMB'000)	(RMB'000)
Operating revenue	56,106	49,017
Loss before tax	(6,417)	(75,738)
Loss after tax	(11,886)	(82,870)
Total assets	417,684	328,090
Total liabilities	206,946	200,222
Net assets	210,738	127,868



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## LETTER FROM THE BOARD

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### Wuxi Yunshui

Wuxi Yunshui is a company incorporated in the PRC with limited liability and, as at the date of this announcement, is a wholly-owned subsidiary of the Company. The principal business of Wuxi Yunshui is investment in and construction, operation and management of environment governance projects using self-owned capital and development and sale of green products (projects required approval according to law shall operate only after approval by relevant departments).

Set out below is the key audited financial information for the financial years ended 31 December 2022 and 2023 of Wuxi Yunshui, prepared according to the PRC accounting standards:

	For the year ended / As at	
	31 December 2022	31 December 2023
	<i>(audited)</i>	<i>(audited)</i>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Operating revenue	21,198	24,927
Profit before tax	11,105	10,080
Profit after tax	10,812	8,163
Total assets	115,147	117,341
Total liabilities	78,496	72,527
Net assets	36,651	44,814

### Ehu Yunshui

Ehu Yunshui is a company incorporated in the PRC with limited liability and, as at the date of this announcement, is a wholly-owned subsidiary of the Company. The principal business of Ehu Yunshui is investment in and construction, operation and management of environment governance projects using self-owned capital and development and sale of green products (projects required approval according to law shall operate only after approval by relevant departments).

Set out below is the key audited financial information for the financial years ended 31 December 2022 and 2023 of Ehu Yunshui, prepared according to the PRC accounting standards:

	For the year ended / As at	
	31 December 2022	31 December 2023
	<i>(audited)</i>	<i>(audited)</i>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Operating revenue	7,454	8,705
Profit before tax	2,623	3,213
Profit after tax	1,601	1,951
Total assets	47,403	47,058
Total liabilities	31,630	29,334
Net assets	15,773	17,724

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## LETTER FROM THE BOARD

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### FINANCIAL EFFECT OF THE DISPOSALS AND USE OF PROCEEDS

Upon completion of the Disposals, the Company will cease to have any equity interest in the Disposal Entities.

Upon the Disposals, the aggregated assets and liabilities of Wuxi Zhongfa, Wuxi Yunshui and Ehu Yunshui amounted to RMB492,489,000 and RMB302,083,000 respectively were derecognized from the consolidated financial statements of the Group based on the financial information of Wuxi Zhongfa, Wuxi Yunshui and Ehu Yunshui as at 31 December 2023. The Group is expected to record an unaudited gain on the Disposals of approximately RMB10,962,390. Such unaudited gain is estimated based on gross proceeds from the Disposals of approximately RMB171,386,941 less the net asset value of the Disposal Equities of approximately RMB158,439,000 (net of RMB31,967,000 which represented 25% equity interest in Wuxi Zhongfa held by the non-controlling shareholders) as at 31 December 2023, and after deducting the expenses directly attributable to the Disposals in aggregate of approximately RMB1,985,551.

Please note that the actual gain recorded by the Group from the Disposals will be subject to the book values of the Disposal Equities accounted for in the financial statements of the Group upon completion of the Disposals, and may therefore be different from the above amount.

The net proceeds from the Disposals, after deducting the expenses directly attributable thereto, will amount to approximately RMB169,401,390. It is intended that the net proceeds from the Disposal will be used for the Group's working capital, of which (i) approximately 40% will be allocated for capital expenditure for constructions in progress; (ii) approximately 35% will be allocated for staff costs; and (iii) approximately 25% will be allocated for management expenses.

### REASONS FOR AND BENEFITS OF THE DISPOSALS

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

As disclosed in the 2023 annual report of the Company, for the purpose of resolving the going concern issue, the Group has taken and will take certain plans and measures to mitigate the liquidity pressure and to improve its financial position, which include, among others, divesting certain of the Group's concession projects and construction projects. The Disposals are among the mitigating measures to enhance liquidity and capital structure of the Group and reduce overall financing expenses of the Group.

The Directors (including independent non-executive Directors) are of the view that the Disposals are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

### WRITTEN SHAREHOLDERS' RESOLUTION

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has material interest in the Disposals and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Disposals.

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

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

Name	Type of Shares	Number of Shares held	Approximate percentage of total number of Shares in issue (Note 1)
<b><i>Closely Allied Group</i></b>			
(1) Green Environmental Protection	Domestic Shares	358,757,162	30.7%
(2) Beijing OriginWater	Domestic Shares	<u>286,650,000</u>	<u>24.02%</u>
	<i>Total:</i>	<u>645,407,162</u>	<u>54.09%</u>

*Note:*

1. The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.

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

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## LETTER FROM THE BOARD

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Green Environmental Protection and Beijing OriginWater are independent of and not connected with each other, nor are they parties acting in concert under the Code on Takeovers and Mergers. Nevertheless, Green Environmental Protection and Beijing OriginWater form a closely allied group under Rule 14.45 of the Listing Rules based on the followings:

- (i) Each of Green Environmental Protection and Beijing OriginWater was one of the Company's promoters and has been the Company's shareholders since its establishment in June 2011.
- (ii) Although they are not parties acting in concert within the meaning of the Code on Takeovers and Mergers, Green Environmental Protection and Beijing OriginWater have voted unanimously on all Shareholders' resolutions since the establishment of the Company (other than routine resolutions at annual general meetings).

### RECOMMENDATION

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

### ADDITIONAL INFORMATION

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

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

\* *For identification purposes only*

## SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2023 are disclosed in the following documents which are published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.yunnanwater.com.cn](http://www.yunnanwater.com.cn).

- (i) Annual report of the Company for the year ended 31 December 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0530/2022053001087.pdf>) (the “**2021 Annual Report**”)
- (ii) Annual report of the Company for the year ended 31 December 2022 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042802761.pdf>) (the “**2022 Annual Report**”)
- (iii) Annual report of the Company for the year ended 31 December 2023 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042900893.pdf>) (the “**2023 Annual Report**”)

## WORKING CAPITAL

The Group reported a net loss of RMB994,606,000 for the year ended 31 December 2023 and the Group’s current liabilities exceeded its current assets by RMB2,197,867,881 as at 31 May 2024. As at the same date, the Group’s total borrowings amounted to RMB30,874,026,917, of which current borrowings amounted to RMB1,597,104,960, while its cash and cash equivalents amounted to RMB761,976,540 only. The Group had capital commitments of approximately RMB7,273,852,604 as at 31 May 2024, which were mainly related to various concession projects and construction projects of the Group.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern. In order to mitigate the liquidity pressure, to improve its financial position, and to sustain the Group as a going concern, certain plans and measures have been and will be taken by the Group which include, but are not limited to, the following:

- (i) The Group has plans to divest certain of the Group’s concession projects and construction projects. In the meantime, the Group is also actively looking for strategic investors to invest in certain existing projects of the Group so as to enhance the capital structure and reduce overall financing expenses of the Group;
- (ii) The Directors are of the view that they have the ability to manage the progress of the projects from time to time and defer the payment schedule of the borrowings in these projects, if necessary. The Group has unutilised project loan facilities from banks to provide financing of up to RMB4,577,991,000 to satisfy part of the construction cost payable and committed capital expenditure in the next twelve months from 31 December 2023. The Group has also initiated the process to obtain new project loans to fund the

Group's existing and new concession projects and construction projects. The Directors believe that these unutilised facilities will continue to be available to the Group and they are confident that they will be able to obtain such project loans from banks and other financial institutions as and when needed; and

(iii) The Group will actively obtain additional new sources of financing as and when needed.

On the basis of the successful implementation of the plans and measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, taking into account the net proceeds of the Disposal, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within 12 months from the date of this circular.

## INDEBTEDNESS

As at the close of business on 31 May 2024, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as summarised below:

### Borrowings

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

As at the close of business on 31 May 2024, the Group had total outstanding borrowings of approximately RMB30,874 million, further details of which are set out below:

	<b>As at</b>
	<b>31 May 2024</b>
	<i>RMB'000</i>
<b>Non-current</b>	
Long-term bank borrowings	
— Secured	12,934,128
— Unsecured	<u>3,729,528</u>
	16,663,656
Corporate bonds and other borrowings	
— Secured	—
— Unsecured	<u>9,369,194</u>
	9,369,194

	As at 31 May 2024 RMB'000
Amount due to Shareholders	
— Caiyun International	994,641
— YHTH	1,439,656
— Green Environmental Protection	<u>809,774</u>
	3,244,071
<b>Current</b>	
Short-term bank borrowings	
— Secured	78,857
— Unsecured	<u>—</u>
	78,857
Current portion of long-term bank borrowings	
— Secured	88,846
— Unsecured	<u>33,921</u>
	122,767
Current portion of corporate bonds and other borrowings	
— Secured	<u>—</u>
— Unsecured	<u>930,901</u>
	930,901
Current portion of amount due to Shareholders	
— Caiyun International	74,828
— YHTH	197,711
— Green Environmental Protection	<u>192,041</u>
	464,580
<b>Total</b>	<b><u><u>30,874,026</u></u></b>

As at the close of business on 31 May 2024, the Group had borrowings of approximately RMB13,102 million in aggregate which were secured by pledge of the Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment and intangible assets and the Company's investments in subsidiaries, and approximately RMB288 million and RMB12,552 million of the Group's borrowings were guaranteed by PRC local government and related parties respectively. The amount due to Shareholders of approximately RMB3,709 million of the Group are unsecured, bear interest and repayable with agreed terms.

**Lease liabilities**

As at the close of business on 31 May 2024, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately RMB50.4 million in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 May 2024 being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

**MATERIAL ADVERSE CHANGE**

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

**FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Group will focus on improving its level of operations. The Group will continue to comprehensively promote the scientific budget management of operation projects, and take into account the specific situation of the project to accurately implement policies to guide the controllable operation of its projects. At the same time, the Group will further strengthen the investigation and eliminate the unstable factors and hidden dangers in the operation process, so as to achieve the collective compliance of operation projects.

In addition, the Group will continue to benchmark domestic high-quality environmental protection enterprises in terms of various indicators, establish a sound management system, improve its own management level, improve the refined management dimension of operation, reduce operating costs and increase operating profits.

The Group aims to actively improve its liability structure. The Group shall optimize its balance sheet, gradually adjust the long-term and short-term liability structure to match the loan term with the Group's business operations, clarify the main responsibility of preventing and resolving debt risks, clean up the relationship between internal and external creditor's rights and debts, formulate a debt collection plan, increase the collection efforts, strictly screen the projects being implemented, and take measures for projects with large capital investment, difficult financing, long operating cycle, difficult payment recovery, and expected losses to reduce capital outflow, reduce bad debt risk, and improve capital turnover efficiency.

Looking forward, the Group will refine its business development goals, strengthen its business development foundation, build a solid bottom line of compliance, and strive to promote the Group's high-quality sustainable development.



The following contents are extracted from the Valuation Report of Wuxi Zhongfa.

**Summary of the Asset Valuation Report  
on the Value of the 75% Equity Interest in  
Wuxi Zhongfa Water Investment Co., Ltd.\*  
(無錫中發水務投資有限公司)**

**Involved in the Proposed Transfer of 75% of Equity Interest in  
Wuxi Zhongfa Water Investment Co., Ltd.\* Through Public Tender by  
Yunnan Water Investment Co., Limited\***

**Vocation International Ping Bao Zi (2023) No. 2527**

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**To Yunnan Water Investment Co., Limited\*:**

Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) has accepted your company's engagement to conduct a valuation on the market value as at 31 December 2022 of the 75% shareholder's equity in Wuxi Zhongfa Water Investment Co., Ltd.\* involved in the economic behavior of the proposed transfer of 75% of equity interest in Wuxi Zhongfa Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*, pursuant to the laws, administrative regulations and asset valuation standards, and by adhering to the principles of independence, objectivity and impartiality and adopting asset-based approach and income approach in accordance with the necessary valuation procedures. The asset valuation performance and the summary of the valuation results are as follows:

**I. Purpose of Valuation**

The economic behavior of the proposed transfer of 75% of equity interest in Wuxi Zhongfa Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\* has been approved by the resolutions in respect of the proposed transfer of 75% of equity interest in Wuxi Zhongfa Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*. contained in "Resolution of the 297th Meeting of the First Session of the Board of Directors (Board Meeting of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.(雲南省康旅控股集團有限公司) (2023) No. 06) (《第一屆董事會第297次會議決議》(雲康旅董決會議[2023]06號))" of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. dated 1 November 2023 and "Minutes of the 35th Session of the General Manager's Office Meeting of Yunnan Water Investment Co., Limited\* (《雲南水務投資股份有限公司總經理辦公會議紀要》第35期)" dated 16 August 2023.

**II. Valuation Target and Valuation Scope**

The valuation target is the value of 75% shareholder's equity in Wuxi Zhongfa Water Investment Co., Ltd.\* involved in the proposed transfer of 75% of equity interest in Wuxi Zhongfa Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*; and the scope of valuation covers all the assets and relevant liabilities declared by Wuxi Zhongfa Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior.

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**APPENDIX II SUMMARY OF VALUATION REPORT OF WUXI ZHONGFA**

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The financial statements of Wuxi Zhongfa Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and relevant audit conclusions upon simulation of spun-off for long-term equity investment are set out in Da Hua Shen Zi [2023] No. 200992 audit report.

### III. Valuation Scope

The scope of valuation covers all the assets and relevant liabilities declared by Wuxi Zhongfa Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior. The financial statements of Wuxi Zhongfa Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued the audit report Da Hua Shen Zi [2023] No. 200992 after simulated divestment of long-term equity investments.

As of 31 December 2022, the valuation reference date, the carrying value of the owners' equity of Wuxi Zhongfa Water Investment Co., Ltd.\* included in the scope of valuation was RMB96,792,800. The carrying values of the various types of assets and liabilities within the scope of the valuation are set out in the table below:

	Unit: RMB
<b>Subjects</b>	<b>Carrying Value</b>
<b>I. Total current assets</b>	<b>88,757,115.74</b>
Monetary capital	317,647.73
Trade receivables	16,598,230.67
Prepayments	1,921,478.08
Other receivables	69,879,784.12
Inventory	39,364.09
Other current assets	611.05
<b>II. Total non-current assets</b>	<b>192,612,110.94</b>
Fixed assets	1,294,076.08
Intangible assets	187,484,532.74
Long term deferred expenses	1,080,060.21
Deferred income tax assets	2,753,441.91
<b>III. Total assets</b>	<b>281,369,226.68</b>
<b>IV. Total current liabilities</b>	<b>183,753,107.73</b>
Trade payables	174,018,471.08
Employee remuneration payable	378,000.00
Tax payable	415,145.55
Other payables	8,941,491.10
<b>V. Total non-current liabilities</b>	<b>823,285.78</b>
Estimated liabilities	823,285.78
<b>VI. Total liabilities</b>	<b>184,576,393.51</b>
<b>VII. Net assets (owner's equity)</b>	<b>96,792,833.17</b>

*Note:* The above financial data have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued the audit report Da Hua Shen Zi [2023] No. 200992 after simulated divestment of long-term equity investments.

The main rights and interests of the entity come from the BOT agreement. The agreement stipulates that the basic water volumes (being minimum water volumes) of Anzhen, Donggang, Ehu and Xibei Sewage Treatment Plants are 20,000 m<sup>3</sup>/t, 20,000 m<sup>3</sup>/t, 10,000 m<sup>3</sup>/t, 22,500 m<sup>3</sup>/t, respectively. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume. The sludge from the sewage is entrusted to Wuxi Guo Lian Lv You Environmental Technology Limited\* (無錫國聯綠由環保科技有限公司) for incineration. The entrustment price is RMB350/ton with government subsidy of RMB268/ton, and the practical price payable is RMB82/ton. According to the BOT agreement, there are two price adjustment methods for sewage treatment fees: one is to adjust the sewage treatment price every two years. Both parties conduct valuation based on price adjustment formula every two years to decide whether to adjust the basic unit price and over inflow unit price of sewage treatment. The treatment unit price determined on last price adjustment date remains unchanged until next one. This method has not been adopted in the history of the entity; another method is the price adjustment involved in the expansion of the project, which is undertaken by the project company. The project company must receive a clear written request from the construction bureau before it can carry out the design, investment and construction of the follow-up project of Wuxi Xishan Anzhen Wastewater Treatment Plant. At that time, the design, investment and construction must be completed within a reasonable time schedule according to the scale required by the construction bureau. The conditions and requirements of the subsequent projects are based on this agreement and determined by both parties through negotiation. The unit price of the sewage treatment service after expansion shall be recalculated according to the calculation method proposed by the investor in the tender of this project and approved by the construction bureau.

#### **IV. Type of Value**

Market value.

#### **V. Valuation Reference Date**

31 December 2022.

#### **VI. Valuation Method**

Asset-based approach, income approach.

## VII. Valuation Method

### (I) Selection of Valuation Method

#### 1. Basis of Selecting Valuation Method

- (1) Article 16 of the Basic Standards for Asset Valuation stipulates that “the valuation methods of determining asset value include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods in accordance with laws.”
- (2) Article 17 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that “when evaluating enterprise value, the suitability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods.”
- (3) Article 18 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that “if different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.”

#### 2. Suitability of Valuation Method

##### (1) Income approach

The income approach in the valuation of enterprises refers to the approach in which the expected income shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the income approach based on the historical operations of the appraised entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of discounted dividend method and discounted cash flow method.

The discounted dividend method refers to the method in which the appraisal target’s value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests. Discounted cash flow method generally consists of the discounted corporate free cash flows model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the appraised entity’s sectors, operational modes, capital structure and development trends.

(2) Market approach

The market approach in the valuation of enterprises refers to the approach in which the appraisal target shall be compared with comparable listed companies or transactions so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the market approach based on adequacy and reliability of the operational and financial data collected on comparable companies, as well as the number of comparable companies to be collected.

The market approach primarily consists of the method of comparing with comparable listed companies and the method of comparing with comparable transactions.

The method of comparing with comparable listed companies refers to the method in which operational and financial data of comparable listed companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the listed company and the appraised entity. The method of comparing with comparable transactions refers to the method in which information on trade, acquisition and merger cases of comparable companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the transactions and the appraised entity.

(3) Asset-based approach

Asset-based approach in the valuation of enterprises refers to the approach in which, based on the balance sheet of the appraised entity on the valuation reference date, the value of identifiable assets and liabilities on and off the balance sheet shall be evaluated so as to determine the value of the appraisal target. Suitability of the asset-based approach shall be reassessed if the appraisal target carries assets or liabilities that are difficult to identify and evaluate, and can exert material impact upon the appraisal target's value.

3. *Selection of Valuation Method*

Analysis of Suitability of the Three Valuation Methods for the Project:

(1) Analysis of suitability of income approach:

Considering that Wuxi Zhongfa Water Investment Co., Ltd. \* (無錫中發水務投資有限公司) is a long-established company, and its expected future revenue can be forecasted and measured in currency, and the risks that such revenue are exposed to can also be gauged, therefore, the income approach was applicable for valuation of this project.

(2) Analysis of suitability of market approach:

Considering that there are not enough comparable listed companies operating in the same industry as Wuxi Zhongfa Water Investment Co., Ltd.\* in China's capital market, and there are rare transaction cases in the same industry at the same time, and relevant disclosure is inadequate, therefore, the market approach was not applicable for this project.

(3) Analysis of suitability of asset-based approach:

Considering that the assets and liabilities entrusted to be evaluated can be inspected onsite and adequate information can be provided for valuation of such assets and liabilities, therefore, the asset-based approach was adopted for valuation of this project.

In summary, for this valuation, we selected the income approach and the asset-based approach to evaluate the valuation target.

**(II) Rationale of Valuation Method**

*1. Rationale of Income Approach*

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the valuation reference date, and select the discounted corporate free cash flows model as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows of the appraised entity during the income period, summing up after its discounting by using the appropriate discount rate.

The total value of the appraised entity is calculated on the basis of the main business value of the appraised entity, plus the value of non-operating and surplus assets and minus the value of non-operating and surplus liabilities, while the value of entire shareholders' equity is derived by further minus the value of interest-bearing debts, then the value of 75% shareholders' equity can be calculated accordingly.

In the discounted corporate free cash flows model, the following matters need to be further explained:

(1) Calculation of corporate free cash flows (FCFF)

FCFF = net profit after tax + depreciation and amortization + finance cost after tax — capital expenditure — additional working capital

(2) Calculation of the main business value of the appraised entity

The calculation formula of the main business value of the appraised entity is as follows:

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

Wherein: P: Value of operating assets of the enterprise as at the valuation reference date;

FCFF<sub>i</sub>: Expected corporate free cash flows of the enterprise in the coming i year after the valuation reference date;

FCFF<sub>n</sub>: Corporate free cash flows of the enterprise during the recovery period;

r: Discount rate (here refers to the weighted average cost of capital (WACC));

n: Forecast period;

i: The coming i year of the forecast period;

g: Terminal growth rate(g = 0 in this report)

Among which, the discount rate (weighted average cost of capital (WACC)) is calculated as follows:

$$WACC = K_e \times \frac{E}{D+E} + K_d \times (1-T) \times \frac{D}{D+E}$$

Wherein: E: Market value of equity;

D: Market value of debt;

K<sub>e</sub>: Cost of equity capital;

K<sub>d</sub>: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital is calculated according to the capital asset pricing model (CAPM ) model. The calculation formula is:

$$K_e = R_f + MRP \times \beta + R_c$$

Wherein: R<sub>f</sub>: Risk-free rate of return;

MRP: Market risk premium;

β: System risk coefficient of equity;

R<sub>c</sub>: Enterprise-specific risk coefficient.

The calculation of WACC needs to determine the following indicators: cost of equity capital, cost of interest-bearing debt capital and ratio of interest-bearing debt to equity value.

1. *Calculation of cost of equity capital ( $K_e$ )*

For the calculation of cost of equity capital, we use the capital asset pricing model (CAPM) to determine.

That is:

$$K_e = R_f + \beta \times MRP + R_c$$

Wherein:  $K_e$ : Cost of equity capital;

$R_f$ : Risk-free rate of return;

$\beta$ : equity-system risk coefficient;

MRP: Market risk premium;

$R_c$ : Enterprise-specific risk adjustment coefficient.

(1) Determination of risk-free rate of return ( $R_f$ )

The rate of return of treasury bonds is generally considered to be risk-free, because the risk of holding the debt that cannot be redeemed at maturity is very small. According to the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach issued by China Appraisal Society and the Guidelines for the Application of Regulatory Rules — Valuation Category No. 1 issued by the CSRC, this item uses the average yield to maturity of the treasury bonds with a remaining maturity of more than 10-19.5 years as the risk-free rate of return.

(2) Calculation of market risk premium

The market risk premium is the difference between the expected rate of return of the market securities portfolio and the risk-free interest rate in the long future. The determination of market risk premium can be based on both historical data and prior estimation.

According to the Guidelines for Assets Appraisal Experts No. 12 — Measurement of Discount Rates in the Valuation of Enterprise Value by the Income Approach issued by China Appraisal Society and the Guidelines for the Application of Regulatory Rules — Valuation Category No. 1 issued by the CSRC, the Company's market risk premium is calculated by using the arithmetic average of the geometric average of the yearly yield of the Shanghai Securities Composite Index and the SZSE Component Index minus the index value of risk-free rate of return, the time span of the value is from the establishment of the index to the present.

When the income forecast period of the appraised entity is limited, the calculation of market risk premium is subject to an adjustment that the market risk premium index value for a limited period is obtained by subtracting the index value of risk-free rate of return for a limited period from the sum of the market risk premium and risk-free rate of return published by the Company as at the valuation reference date.



(3) Calculation of  $\beta$

$\beta$  reflects the range of changes in the same direction of a stock and the market. In the market model, the  $\beta$  index value is obtained by regressing the rate of return on stocks with the market rate of return, and the index value of the sample  $\beta$  in this description comes from the iFind information platform.

The  $\beta$  index value of the appraised entity is determined based on the selected samples, of which, the  $\beta$  index value without financial leverage of the industry business segment of the appraised entity is calculated based on the  $\beta$  index value with financial leverage obtained from the iFind information platform, and the  $\beta$  index value with financial leverage of the appraised entity is calculated based on its target capital structure.

The conversion formula between the  $\beta$  index value with financial leverage and the  $\beta$  index value without financial leverage is as follows:

$$\beta_L = [1 + (1 - t) \times D/E] \times \beta_U$$

Wherein:  $\beta_L$ : Beta with financial leverage;

$\beta_U$ : Beta without financial leverage;

T: Income tax rate of the appraised entity;

D/E: Target capital structure of the appraised entity.

(4) Adjustment of enterprise-specific risk

Due to the different operating environment between the selected sample listed companies and the appraised entity, the business, management and financial risks of the appraised entity, as well as the enterprise-specific risk have been taken into consideration.

(5) Calculation of equity capital cost

Through the above calculation, based on below formula:

$$K_e = R_f + \beta \times MRP + R_c$$

the equity capital cost is therefore calculated.

Through the above calculation, the discount rate is 6.70%.

2. *Cost of interest-bearing debt capital*

The cost of interest-bearing debt capital is determined according to the quoted interest rate of the loan market (LPR for more than 5 years) authorized by the National Interbank Funding Center.

(3) Scope of non-operating and surplus assets

The scope of non-operating and surplus assets includes long-term equity investments, surplus assets and non-operating assets, and the value of non-operating and surplus assets is equal to the sum of the value of long-term equity investments, surplus assets and non-operating assets.

The assets of the appraised entity are classified into two categories as at the valuation reference date: operating and non-operating assets. Operating assets refer to the assets related to the appraised entity's operations, and are further classified into efficient assets and inefficient assets. The efficient assets refer to assets that are being used or will be used for the entity's production and operation; inefficient assets are also named surplus assets, referring to assets that are held for operating purpose, but are not used at the valuation reference date or will not be used in the foreseeable future.

Surplus and non-operating assets are defined as follows:

Surplus assets refer to superfluous assets that are held for operational purpose, but have no direct link to the income of the enterprise and exceed the required amount for the operation of the enterprise in a specific period of time. We analyzed the appraised entity's asset allocation and profitability status, as well as its operational status to determine whether the appraised entity has surplus assets.

Non-operating assets refer to assets that are held for non-operating purpose, and have no direct link to production and operating activities of the enterprise, such as the properties occupied by shareholders for residential use, vehicles used by shareholders, short-term equity and bond investments concerning industrial and manufacturing companies, and transactions amounts with related companies irrelevant to the main business of the enterprise.

(4) Scope of non-operating and surplus liabilities

The scope of non-operating and surplus liabilities includes surplus liabilities, non-operating liabilities, etc. Correspondingly, the value of non-operating and surplus liabilities is equal to the sum of the value of the surplus liabilities and the non-operating liabilities.

(5) Calculation of value of entire shareholders' equity

The formula for calculating the value of entire shareholders' equity is:

Value of entire shareholders' equity = total value of the enterprise — value of interest-bearing debts

Total value of the enterprise = value of main business of the enterprise + value of non-operating and surplus assets — value of non-operating and surplus liabilities

(6) Determination of yield period

Wuxi Zhongfa Water Investment Co., Ltd.\* (無錫中發水務投資有限公司) operates in sewage treatment industry. It has been established for a long time and has good business prospects in the future. According to the Franchise Agreement for Sewage Treatment Plant BOT Project in Anzhen, Wuxi\* (《無錫市安鎮污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* (無錫市錫山區住房和城鄉建設局) and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* (上海中發(電氣)集團有限公司聯合體) in May 2006, the franchise term for the project of sewage treatment plant in Anzhen is 25 years (including construction period). As discussed with the Management, the phase I of the sewage treatment plant in Anzhen officially started operation in July 2008, and the franchise term is therefore a period from 1 September 2007 to 31 August 2031.

According to the Franchise Agreement for Sewage Treatment Plant BOT Project in Donggang, Wuxi\* (《無錫市東港污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the franchise term for the project of sewage treatment plant in Donggang is 25 years (including construction period). As discussed with the Management, the phase I and phase II of the sewage treatment plant in Donggang officially started operation in October 2008 and March 2012 respectively, and the franchise term is therefore a period from 1 August 2008 to 31 July 2032.

According to the Franchise Agreement for Sewage Treatment Plant BOT Project in Ehu, Wuxi\* (《無錫市鵝湖污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the franchise term for the project of sewage treatment plant in Ehu is 25 years (including construction period). As discussed with the Management, the phase I of the sewage treatment plant in Ehu officially started operation in April 2009, and the franchise term is therefore a period from 1 August 2008 to 31 July 2032.

According to the Franchise Agreement for Sewage Treatment Plant BOT Project in Zhangjing, Wuxi\* (《無錫市張涇污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the franchise term for the project of sewage treatment plant in Xibei is 25 years (including construction period). As discussed with the Management, the phase I and phase II of the sewage treatment plant in Xibei officially started operation in October 2008 and April 2009 respectively, and the franchise term is therefore a period from 1 October 2008 to 30 September 2032.

At last, the yield period of Wuxi Zhongfa Water Investment Co., Ltd.\* has been determined as limited, and the forecast period is from January 2023 to September 2032.

(7) Determination of future income

The sewage treatment plant in Anzhen was completed and commenced trial operation in July 2008. Pursuant to the Franchise Agreement for BOT Project of Anzhen Sewage Treatment Plant in Wuxi\* (《無錫市安鎮污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in May 2006, the major revenue of the franchise right is the sewage treatment fees charging to Party A. The construction scale of the first phase of the project is 20,000 tons/day. With effect from the commercial operation date, basic water volume amounts to 20,000 tons/day. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB1.31/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. Party B is entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 25 years (including construction period). Party B shall transfer the project to Party A free of charge after expiration.

The sewage treatment plant in Donggang was completed and commenced trial operation in October 2008. Pursuant to the Franchise Agreement for BOT Project of Sewage Treatment Plant in Donggang, Wuxi \* (《無錫市東港污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the major revenue of the franchise right is the sewage treatment fees charging to Party A. The construction scale is 10,000 tons/day for the first phase of the project and 10,000 tons/days for the second phase. With effect from the commercial operation date, basic water volume amounts to 20,000 tons/day. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB1.43/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. Party B is entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 25 years (including construction period). Party B shall transfer the project to Party A free of charge after expiration.

The sewage treatment plant in Ehu was completed and commenced trial operation in April 2009. Pursuant to the Franchise Agreement for BOT Project of Sewage Treatment Plant in Ehu, Wuxi\* (《無錫市鵝湖污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the major revenue of the franchise right is the sewage treatment fees charging to Party A. The construction scale of the first phase of the project is 10,000 tons/day. With effect from the commercial operation date, basic water volume amounts to 10,000 tons/day. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB1.93/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. Party B is entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 25 years (including construction period). Party B shall transfer the project to Party A free of charge after expiration.

The sewage treatment plant in Xibei was completed and commenced trial operation in October 2008. Pursuant to the Franchise Agreement for BOT Project of Sewage Treatment Plant in Zhangjing, Wuxi \* (《無錫市東港污水處理廠BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Shanghai Zhongfa Electric(Group) Joint-Stock Co., Ltd.\* in January 2007, the major revenue of the franchise right is the sewage treatment fees charging to Party A. The construction scale is 5,000 tons/day for the first phase of the project and 17,500 tons/days for the second phase. With effect from the commercial operation date, basic water volume amounts to 22,500 tons/day. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB1.35/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. Party B is entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 25 years (including construction period). Party B shall transfer the project to Party A free of charge after expiration.

The main indicators involved in the future income forecast for Wuxi Zhongfa Water Investment Co., Ltd. \* is minimum water volume and unit fee of sewage treatment. The minimum water volume is calculated according to the minimum water volume stated in the BOT agreement. The estimated price adjustments of unit fee of sewage treatment for Anzhen sewage treatment plants in Donggang, Ehu and Xibei amount to RMB3.17/tons, RMB3.31/tons, RMB3.46/tons and RMB3.02/tons, respectively pursuant to “Request for the Adjustment of Water Price in Wuxi Zhongfa Water Plant 4” (Zhongfa Water [2022] No.160)\* (《無錫中發四廠提標改造水價調整的請示》(中發水務[2022]160號)).

Forecast of actual sewage treatment volume: the actual sewage treatment volume for the forecast period of 2023 is determined comprehensively based on the actual sewage treatment volumes of the corporate for the year 2022 and the period from January to August 2023. Additionally, after communication with the company’s management, the current sewage treatment volume is basically stable, and the actual sewage treatment volume during the forecast period is expected to remain unchanged as compared to the year 2023.

## 2. *Rationale of Asset-based Approach*

We have evaluated the entire shareholder’s equity interests of Wuxi Zhongfa Water Investment Co., Ltd. \* through asset-based approach. That is, firstly, we adopt proper approach to evaluate the market value of each type of assets and calculate the appraised value of the entire shareholder’s equity interests by deducting liabilities from summed-up amount of all assets of Wuxi Zhongfa Water Investment Co., Ltd. \*

Valuation methods of each type of assets and liabilities are as follows:

- (1) Monetary capital is bank deposits. For RMB-denominated monetary capital, their appraised values are determined based on verified book value.

- (2) Other creditor's assets: mainly include receivables, prepayments and other receivables. An analysis is being undertaken to the related business, aging and repayment situation of the target company, with a focus on the use of funds and operating conditions of the main debtors. Upon verification, their appraised values are determined based on recoverable amount.
- (3) Inventories: include raw materials, turnover materials in stock, etc. For the purchased inventories with nature of short storage time, strong liquidity and steady market price, their appraised values are determined based on verified book value.
- (4) Structure

With regard to this valuation, considering the features of various construction-related assets to be appraised, the valuation of self-built and purchased structures within the scope of the valuation adopts the replacement cost approach.

For structures with small value and simple structure, the pre-tax construction cost and the construction cost (including tax) are determined using the unilateral cost method. The newness rate is comprehensively determined based on the service life of the structure and the on-site inspection, to appraise the net value of the structure.

Appraised value of structures= full replacement price × newness rate

For other self-built structures, the replacement unit price is determined, and the appraised net value is calculated based on on-site inspections, using analogous methods and considering various valuation factors comprehensively.

Newness rate: the newness rate for building assets is calculated using the comprehensive newness rate methods, the calculation formula is as follows:

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

- (5) Equipment

Based on the purpose of this valuation, subject to the principle of continuous use and market prices, combining with the features of machinery and equipment and the collected information, the valuation is conducted using replacement cost approach and market approach.

The replacement cost approach is an asset valuation method in which the difference between the full cost of reacquiring or constructing an appraised asset in a new condition under current conditions and the depreciation of physical obsolescence, depreciation of functional obsolescence and depreciation of economic obsolescence that has already occurred for the appraised asset is used as the appraisal value of the appraised asset. The calculation formula of the replacement cost approach is as follows:

Appraised value = full replacement price × newness rate

The market approach is mainly used for computers in use and other electronic equipment with longer usage times and vehicles with good market liquidity. The appraised value is determined by comparing the market transaction prices of similar equipment.

(6) Intangible asset

The intangible asset is franchise.

Intangible asset - franchise: In the valuation, the income approach (i.e. the multi-period Excess Earning Method) was used to assess the market value of the asset within the scope of franchise.

Excess Earning Method is an appraisal method that uses the discounted value of earnings attributable to the target asset to determine the approach for the valuation of such asset.

More precisely, the overall income of the asset group generated from the target asset and other related contributing assets is firstly calculated, then the corresponding contribution of other related contributing assets is deducted from such overall income and the remaining income is recognised as excess income and considered to be the income from the target asset. The foresaid income will be converted to its present value by applying an appropriate discount rate to obtain the value of the target asset.

Other related contributing assets generally include working capital, fixed assets/other long-term assets, other intangible assets and portfolio labor costs. The calculation formula of the excess earnings method is as follow:

$$P = \sum_{t=1}^n \frac{F_t}{(1+r)^t}$$

Wherein:

P - Target asset value;

F<sub>t</sub> - Expected excess earning from the asset in year t;

r - Discount rate;

n - Yield period.

Among which, F<sub>t</sub> is calculated using NOIAT, with the calculation process as follows:

Earnings before interest and tax (EBIT) = Net Profit + Income Tax + Interest

Earnings Before Interest After Tax = After-Tax Profit + After-Tax Interest

NOIAT = Earnings Before Interest After Tax + Depreciation/Amortization

Among which,  $r = \text{Weight of Debt} \times \text{After-Tax Cost of Debt Capital} + \text{Cost of Equity Capital} \times \text{Weight of Equity} + \text{Special Risk Premium}$

The main parameters adopted for the franchise, such as revenues, costs, forecast period, etc., are consistent with the parameters of the income approach, and the forecast period is from 2023 to January 2032 with a discount rate of 8.10%.

(7) Long-term unamortised expense

The appraiser reviewed the relevant contracts and original accounting records, verified the amount of long-term unamortised expense and the original amortised value recorded, and then used the verified book value as the assessed value.

(8) Deferred income tax assets

Based on the review of the account books and original record, the verified book value is used as the appraised value. Deferred tax assets generated by equipment included in intangible assets as of the valuation reference date are treated as having zero value.

(9) Liabilities

Liabilities mainly include payables, employee remuneration payables, tax payables, other payables, and estimated liabilities. The asset appraiser reviews and verifies the liabilities of the enterprise and, upon verification, the amount of liabilities actually required to be borne by the enterprise as at the valuation reference date will be taken as the appraised value of the liabilities.

### **VIII. Valuation Conclusion and Its Validity Period**

As of the valuation reference date, i.e. 31 December 2022, the carrying value of the owners' equity of Wuxi Zhongfa Water Investment Co., Ltd.\* included in the scope of valuation was RMB96,792,800. The valuation conclusion under the income approach has been adopted by this valuation as the final valuation conclusion: On the premise of going concern, the value of the entire shareholders' equity of Wuxi Zhongfa Water Investment Co., Ltd.\* was RMB127,867,500 with an appreciation in value of RMB31,074,700, representing an appreciation rate of 32.10%. Among these, the value of 75% of shareholder's equity in Wuxi Zhongfa Water Investment Co., Ltd.\* was RMB95,900,600.

When using the valuation report, the relevant parties are hereby reminded to pay attention to the events set out below:

1. The scope of this evaluation is to simulate the equity value of Wuxi Zhongfa Water Investment Co., Ltd.\* after being spun-off from Xuzhou Zhongfa Water Investment Co., Ltd.\*. The commissioner intends to acquire Xuzhou Zhongfa Water Investment Co., Ltd.\* from Wuxi Zhongfa Water Investment Co., Ltd.\* by way of private agreement transfer. Based on the information from commissioner, the consideration of transfer is the appraised value of Xuzhou Zhongfa Water Investment Co., Ltd.\* without discount or premium, which is drawn to the attention of the report users.



2. Water price is adjusted in this evaluation in accordance with the “Request for the Adjustment of Water Price in Wuxi Zhongfa Water Plant 4” (Zhongfa Water [2022] No. 160). The relevant hearing has yet to proceed. Considering the hearing schedule, the price in this evaluation is expected to be adjusted from 1 April 2024, which is drawn to the attention of the report users.
3. Pursuant to the BOT agreement, general restoration should be carried out before the conclusion of the franchise right. In this evaluation, the general restoration expenditure has been taken into account, representing 15% of the main business cost during the last forecast period for each sewage treatment plant, which is drawn to the attention of the report users.
4. According to the “Announcement of the State Taxation Administration on Matters Concerning the Handling of the Refund of Term-End Excess Input Value-Added Tax Credits” (State Administration of Taxation Announcement No. 20, 2019), enterprises enjoy preferential policies for the refund of excess tax credit. It is understood that the selection of this preferential policy by enterprises is mainly due to a large amount of cash they could receive for the benefit of their operations, which is drawn to the attention of the report users.

The valuation conclusion will remain valid for a year, from the valuation reference date of 31 December 2022 to 30 December 2023. Except for the special matters mentioned herein, after the valuation reference date and within the validity period, the valuation conclusion shall be valid upon the occurrence of economic behavior, unless significant changes in operating environment materially impact the Company’s operations.

## **IX. Valuation Conclusion**

### ***(i) Valuation Results under the Asset-Based Approach***

#### ***1. The appraised value of the entire shareholders’ equity***

Based on the principle of independence, fairness and objectivity, and on the premise of going concern, the following valuation results were concluded through necessary asset valuation procedures with asset-based approach:

As at the valuation reference date, i.e. 31 December 2022, the carrying value of total assets of Wuxi Zhongfa Water Investment Co., Ltd.\* included in the scope of the valuation was RMB281,369,200, and the appraised value was RMB305,404,500, representing an appreciation of RMB24,035,300 and an appreciation rate of 8.54%. The carrying value of liabilities was RMB184,576,400 and the appraised value was RMB183,753,100 with an impairment amount of RMB823,300, representing an impairment rate of 0.45%. The carrying value of the owners’ equity was RMB96,792,800, and the value of the entire shareholders’ equity was RMB121,651,400 under the

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**APPENDIX II      SUMMARY OF VALUATION REPORT OF WUXI ZHONGFA**

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premise of maintaining the existing use as a going concern, which represented an appreciation of RMB24,858,600 and an appreciation rate of 25.68%. Valuation results of each asset and liability type are as follows:

Unit: RMB'0,000

Item name	Carrying value	Appraised value	Increase or decrease	Appreciation rate (%)
Current assets	8,875.71	8,875.65	-0.06	0.00
Non-current assets	19,261.21	21,664.80	2,403.59	12.48
Fixed assets	129.41	194.03	64.62	49.93
Intangible assets	18,748.45	21,108.00	2,359.55	12.59
Long term deferred expenses	108.01	108.01	0.00	0.00
Deferred income tax assets	275.34	254.76	-20.58	-7.47
<b>Total assets</b>	<b>28,136.92</b>	<b>30,540.45</b>	<b>2,403.53</b>	<b>8.54</b>
Current liabilities	18,375.31	18,375.31	0.00	0.00
Non-current liabilities	82.33	0.00	-82.33	-100.00
<b>Total liabilities</b>	<b>18,457.64</b>	<b>18,375.31</b>	<b>-82.33</b>	<b>-0.45</b>
<b>Net assets (Owners' equity)</b>	<b>9,679.28</b>	<b>12,165.14</b>	<b>2,485.86</b>	<b>25.68</b>

(For the details of the valuation conclusion, please refer to the valuation list).

2. *The appraised value of 75% shareholders' equity of Wuxi Zhongfa Water Investment Co., Ltd.\**

The appraised value of 75% shareholders' equity = the appraised value of entire shareholders' equity × commissioner shareholding ratio

$$=12,165.14 \times 75\%$$

$$=RMB91,238,600$$

(ii) *Valuation result under the income approach*

By investigating into, researching and analyzing the enterprise's asset management and its various historical financial information, the valuation professionals have considered enterprise's status and the impacts of national macro-economic policies and the environment the enterprise is in, analyzed the related operational risks, and convened with the enterprise's managers, financial staff and technicians. Based on the premise of continuing operation and evaluation assumptions, the professionals reasonably forecasted income and discount ratio for the next few years and concluded that the value of entire shareholders' equity amounted to RMB127,867,500. Therefore, the 75% shareholders' equity in Wuxi Zhongfa Water Investment Co., Ltd.\* to be transferred was RMB95,900,600.

*(iii) Valuation conclusion*

*1. Analysis of difference between valuation results*

The valuation result under the income approach was RMB95,900,600, which was RMB4,662,000 more than the valuation result under the asset-based approach of RMB91,238,600, and the difference ratio was 5.11%.

The difference between the valuation results under these two approaches is mainly due to:

- (1) The valuation under the asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets (costs of purchase and construction), usually this type of costs of purchase and construction vary according to the changes in the national product.
- (2) The valuation under the income approach uses the expected income of assets as the valuation standards, reflecting the degree of the operating capability (profitability) of the assets, usually this type of profitability is affected by the several conditions such as the macro economy, government control and effective utilization of the assets etc.

In conclusion, the difference between the valuation results under these two approaches results from the difference of valuation standards and factors affected under these two appraisal approaches.

*2. Selection of the final valuation conclusion*

In summary, the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company. Therefore, the valuation result of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at the valuation reference date, i.e. 31 December 2022, the book value of owners' equity of Wuxi Zhongfa Water Investment Co., Ltd.\* was RMB96,792,800, and the appraised value of total shareholders' equity interests was RMB127,867,500, with an appreciation amount of RMB31,074,700, representing an appreciation rate of 32.10%. Among them, the 75% shareholders' equity in Wuxi Zhongfa Water Investment Co., Ltd.\* to be transferred was RMB95,900,600.

**The above has been extracted from the full text of the asset valuation report. In order to fully understand the valuation and have a correct understanding of the valuation conclusion, you should carefully read the full text of the asset valuation report.**

\* The English names are for reference only.

The following contents are extracted from the Valuation Report of Wuxi Yunshui.

**Summary of the Asset Valuation Report  
on the Value of the Entire Shareholders' Equity in  
Wuxi Yunshui Water Investment Co., Ltd.\*  
(無錫雲水水務投資有限公司)  
Involved in the Proposed Transfer of 100% of Equity Interest in  
Wuxi Yunshui Water Investment Co., Ltd.\* Through Public Tender by  
Yunnan Water Investment Co., Limited\***

**Vocation International Ping Bao Zi (2023) No. 2524**

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**To Yunnan Water Investment Co., Limited\*:**

Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) has accepted your company's engagement to conduct a valuation on the market value as at 31 December 2022 of the entire shareholders' equity in Wuxi Yunshui Water Investment Co., Ltd.\* involved in the economic behavior of the proposed transfer of 100% of equity interest in Wuxi Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*, pursuant to the laws, administrative regulations and asset valuation standards, and by adhering to the principles of independence, objectivity and impartiality and adopting asset-based approach and income approach in accordance with the necessary valuation procedures. The asset valuation performance and the summary of the valuation results are as follows:

**I. Purpose of Valuation**

The economic behavior of the proposed transfer of 100% of equity interest in Wuxi Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\* has been approved by the resolutions in respect of the proposed transfer of 100% of equity interest in Wuxi Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*. contained in "Resolution of the 297th Meeting of the First Session of the Board of Directors (Board Meeting of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.(雲南省康旅控股集團有限公司) (2023) No. 06) (《第一屆董事會第297次會議決議》(雲康旅董決會議[2023]06號))" of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. dated 1 November 2023 and "Minutes of the 35th Session of the General Manager's Office Meeting of Yunnan Water Investment Co., Limited\* (《雲南水務投資股份有限公司總經理辦公會議紀要》第35期)" dated 16 August 2023.

**II. Valuation Target and Valuation Scope**

The valuation target is the value of the entire shareholders' equity in Wuxi Yunshui Water Investment Co., Ltd.\* involved in the proposed transfer of 100% of equity interest in Wuxi Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*; and the scope of valuation covers all the assets and relevant liabilities declared by Wuxi Yunshui Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior.

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**APPENDIX III SUMMARY OF VALUATION REPORT OF WUXI YUNSHUI**

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The financial statements of Wuxi Yunshui Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and relevant audit conclusions are set out in Da Hua Shen Zi [2023] No. 200993 audit report.

### III. Valuation Scope

The scope of valuation covers all the assets and relevant liabilities declared by Wuxi Yunshui Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior. The financial statements of Wuxi Yunshui Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and the relevant audit report Da Hua Shen Zi [2023] No. 200993 was issued on 18 December 2023.

As of 31 December 2022, the valuation reference date, the carrying value of the owners' equity of Wuxi Yunshui Water Investment Co., Ltd.\* included in the scope of valuation was RMB23,782,400. The carrying values of the various types of assets and liabilities within the scope of the valuation are set out in the table below:

	Unit: RMB0'000
<b>Assets</b>	<b>31 December 2022</b>
Current assets	3,949.18
Non-current assets	6,167.06
Fixed assets, net	19.72
Intangible assets	6,094.25
Deferred income tax assets	53.10
<b>Total assets</b>	<b>10,116.24</b>
Current liabilities	3,177.27
Non-current liabilities	4,560.73
<b>Total liabilities</b>	<b>7,738.00</b>
<b>Owners' equity</b>	<b>2,378.24</b>

*Note:* The above financial data have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued an unqualified audit report.

The core operating assets of the appraised entity mainly include franchise right. Project name: Phase II Expansion BOT Project of Anzhen Sewage Treatment Plant. Project scope: all facilities of phase II project within red line of the sewage treatment plant project. Project scale: construction scale is 30,000 m<sup>3</sup>/d. Project address: Nianyu Village, Anzhen, Xishan District, Wuxi.

The franchise right has been approved by the People's Government of Xishan District, Wuxi. The appraised entity has the exclusive right, which was authorized in accordance with this agreement, to finance, design, construct, operate and maintain project facilities and receive service fees for sewage treatment during franchise period. Pursuant to the agreement, the appraised entity shall bear the costs,

liabilities and risks by itself, and shall be responsible for the investment and financing, design, construction, operation and maintenance of the sewage treatment plant. All the rights, ownerships and interests of the project shall be handed over to the authorizer or its designated institution when it meets all relevant standards and when the franchise period expires.

The phase II expansion of Anzhen sewage treatment plant in Xishan District, Wuxi was respectively completed and commenced trial operation in March 2019. Its commercial operation date is on 1 April 2020. Pursuant to the Franchise Agreement for Phase II Expansion BOT Project of Anzhen Sewage Treatment Plant in Xishan District, Wuxi\* (《無錫市錫山區安鎮污水處理廠二期擴建BOT項目特許經營協議》) entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* (無錫市錫山區住房和城鄉建設局) and Yunnan Water Investment Co., Limited\* in November 2016, the major revenue of the franchise right is the sewage treatment fee charging to Party A. The construction scale of the project is 30,000 m<sup>3</sup>/d. With effect from the commercial operation date, the basic water volume (being minimum water volume) amounts to 30,000 m<sup>3</sup>/d. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB2.643/m<sup>3</sup> (tax included) at the beginning of trial operation. The price is adjusted every two years. Both parties conduct valuation based on price adjustment formula every two years to decide whether to adjust the basic unit price and over inflow unit price of sewage treatment. The treatment unit price determined on last price adjustment date remains unchanged until next one. When adjusting sewage treatment price, Party B will calculate the adjustment range in accordance with the formulas specified in Appendix VIII and submit application before 7 January of every adjustment year. Party A shall report to price administrator for approval after verification within thirty working days after the application is received. Party B is entitled to national latest tax favourable policies in accordance with laws. The fixed sewage treatment fee payable by Party A to Party B amounts to RMB500,000 per month and shall be paid once every two months. The remaining payable amount calculated according to the Concession Agreement will be paid in full by Party A in one go in every year end settlement.

The franchise period shall be 14.5 years (calculated from formal operation date with one phase of construction included). Party B shall transfer the project to Party A free of charge after expiration. The sewage treatment of Phase II project adopts integrated MBR membrane treatment technology. The outflow water after treatment meets a standard higher than GB18918-2002 Class I A standard of “Discharge Standards on Pollutants from Urban Sewage Treatment Plants” \* (《城鎮污水處理廠污染物排放標準》). Tail water after treatment will flow into Shuang Jing River, the tributary of Shengtang River, without reclaimed water sales. Sewage sludge will be incinerated by Wuxi Guo Lian Lv You Environmental Technology Limited\* (無錫國聯綠由環保科技有限公司) as entrusted by Wuxi Zhongfa. The entrustment price is RMB350/ton with government subsidy of RMB268/ton, and the practical price payable is RMB82/ton.

Major structures include coarse screen influent pump station, fine screen aerated grit chamber, membrane screen pool, integrated MBR pool and blower room. The structure remoulded from equipment is sludge dehydration machine room. The land occupied by the sewage treatment plant of the appraised entity is owned by Wuxi Xishan Sewage Water Treatment Limited \* (無錫市錫山污水處理有限公司). A leasing agreement has been signed, which specifies that the land is provided to the appraised entity for use free of charge before expiration of franchise right.

**IV. Type of Value**

Market value.

**V. Valuation Reference Date**

31 December 2022.

**VI. Valuation Method**

Asset-based approach, income approach.

**VII. Valuation Method**

***(I) Selection of Valuation Method***

*1. Basis of Selecting Valuation Method*

- (1) Article 16 of the Basic Standards for Asset Valuation stipulates that “the valuation methods of determining asset value include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods in accordance with laws .”
- (2) Article 17 of the Practice Guidelines for Asset Valuation - Enterprise Value stipulates that “when evaluating enterprise value, the suitability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods.”
- (3) Article 18 of the Practice Guidelines for Asset Valuation - Enterprise Value stipulates that “if different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.”

*2. Suitability of Valuation Method*

**(1) Income approach**

The income approach in the valuation of enterprises refers to the approach in which the expected income shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the income approach based on the historical operations of the appraised entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of discounted dividend method and discounted cash flow method.

The discounted dividend method refers to the method in which the appraisal target's value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests. Discounted cash flow method generally consists of the discounted corporate free cash flows model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the appraised entity's sectors, operational modes, capital structure and development trends.

(2) Market approach

The market approach in the valuation of enterprises refers to the approach in which the appraisal target shall be compared with comparable listed companies or transactions so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the market approach based on adequacy and reliability of the operational and financial data collected on comparable companies, as well as the number of comparable companies to be collected.

The market approach primarily consists of the method of comparing with listed companies and the method of comparing with comparable transactions.

The method of comparing with comparable listed companies refers to the method in which operational and financial data of comparable listed companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the listed company and the appraised entity. The method of comparing with comparable transactions refers to the method in which information on trade, acquisition and merger cases of comparable companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the transactions and the appraised entity.

(3) Asset-based approach

Asset-based approach in the valuation of enterprises refers to the approach in which, based on the balance sheet of the appraised entity on the valuation reference date, the value of identifiable assets and liabilities on and off the balance sheet shall be evaluated so as to determine the value of the appraisal target. Suitability of the asset-based approach shall be reassessed if the appraisal target carries assets or liabilities that are difficult to identify and evaluate, and can exert material impact upon the appraisal target's value.



### *3. Selection of Valuation Method*

Analysis of Suitability of the Three Valuation Methods for the Project:

(1) Analysis of suitability of income approach:

Considering that Wuxi Yunshui Water Investment Co., Ltd.\* (無錫雲水水務投資有限公司) is a long-established company with a relatively stable historical annual performance, and its expected future revenue can be forecasted and measured in currency, and the risks that such revenue are exposed to can also be gauged, therefore, the income approach was applicable for valuation of this project.

(2) Analysis of suitability of market approach:

Considering that there are not enough comparable listed companies operating in the same industry as Wuxi Yunshui Water Investment Co., Ltd.\* in China's capital market, and there are rare transaction cases in the same industry at the same time, and relevant disclosure is inadequate, therefore, the market approach was not applicable for this project.

(3) Analysis of suitability of asset-based approach:

Considering that the assets and liabilities entrusted to be evaluated can be inspected onsite and adequate information can be provided for valuation of such assets and liabilities, therefore, the asset-based approach was adopted for valuation of this project.

In summary, for this valuation, we selected the income approach and the asset-based approach to evaluate the valuation target.

## ***(II) Rationale of Valuation Method***

### *1. Rationale of income approach*

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the valuation reference date, and select the discounted corporate free cash flows model as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows of the appraised entity during the income period, summing up after its discounting by using the appropriate discount rate.

The total value of the appraised entity is calculated on the basis of the main business value of the appraised entity, plus the value of non-operating and surplus assets and minus the value of non-operating and surplus liabilities, and the value of entire shareholders' equity is derived by further minus the value of interest-bearing debts.

In the discounted corporate free cash flows model, the following matters need to be further explained:

- (1) Calculation of corporate free cash flows (FCFF)

FCFF = net profit after tax + depreciation and amortization + finance cost after tax — capital expenditure — additional working capital

- (2) Calculation of the main business value of the appraised entity

The calculation formula of the main business value of the appraised entity is as follows:

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

Wherein: P: Value of operating assets of the enterprise as at the valuation reference date;

FCFF<sub>i</sub>: Expected corporate free cash flows of the enterprise in the coming i year after the valuation reference date;

FCFF<sub>n</sub>: Corporate free cash flows of the enterprise during the recovery period;

r: Discount rate (here refers to the weighted average cost of capital (WACC));

n: Forecast period;

i: The coming i year of the forecast period;

Among which, the discount rate (weighted average cost of capital (WACC)) is calculated as follows:

$$WACC = K_e \times \frac{E}{D+E} + K_d \times (1-T) \times \frac{D}{D+E}$$

Wherein: E: Market value of equity;

D: Market value of debt;

K<sub>e</sub>: Cost of equity capital;

K<sub>d</sub>: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital is calculated according to the capital asset pricing model (CAPM) model. The calculation formula is:

$$K_e = R_f + MRP \times \beta + R_c$$

Wherein:  $R_f$ : Risk-free rate of return;

MRP: Market risk premium;

$\beta$ : System risk coefficient of equity;

$R_c$ : Enterprise-specific risk coefficient.

### (3) Scope of non-operating and surplus assets

The scope of non-operating and surplus assets includes surplus assets and non-operating assets, and the value of non-operating and surplus assets is equal to the sum of surplus assets value and non-operating assets value.

#### ① Surplus assets and non-operating assets

The assets of the appraised entity are classified into two categories as at the valuation reference date: operating and non-operating assets. Operating assets refer to the assets related to the appraised entity's operations, and are further classified into efficient assets and inefficient assets. The efficient assets refer to assets that are being used or will be used for the entity's production and operation; inefficient assets are also named surplus assets, referring to assets that are held for operating purpose, but are not used at the valuation reference date or will not be used in the foreseeable future.

Surplus and non-operating assets are defined as follows:

Surplus assets refer to superfluous assets that are held for operational purpose, but have no direct link to the income of the enterprise and exceed the required amount for the operation of the enterprise in a specific period of time. We analyzed the appraised entity's asset allocation and profitability status, as well as its operational status to determine whether the appraised entity has surplus assets.

Non-operating assets refer to assets that are held for non-operating purpose, and have no direct link to production and operating activities of the enterprise, such as the properties occupied by shareholders for residential use, vehicles used by shareholders, short-term equity and bond investments concerning industrial and manufacturing companies, and transactions amounts with related companies irrelevant to the main business of the enterprise.

The valuation of surplus assets and non-operating assets is based on asset characteristics and conducted with different valuation methods.

(4) Scope of non-operating and surplus liabilities

The scope of non-operating and surplus liabilities includes surplus liabilities, non-operating liabilities, etc. Correspondingly, the value of non-operating and surplus liabilities is equal to the sum of the value of the surplus liabilities and the non-operating liabilities.

(5) Calculation of value of entire shareholders' equity

The formula for calculating the value of entire shareholders' equity is:

Value of entire shareholders' equity = total value of the enterprise — value of interest-bearing debts

Total value of the enterprise = value of main business of the enterprise + value of non-operating and surplus assets — value of non-operating and surplus liabilities

(6) Determination of yield period

The Franchise Agreement for Phase II Expansion BOT Project of Anzhen Sewage Treatment Plant in Xishan District, Wuxi\* (《錫市錫山區安鎮污水處理廠二期擴建BOT項目特許經營協議》), which was entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Yunnan Water Investment Co., Limited\* (雲南水務投資股份有限公司) in November 2016, stipulated that the franchise term for phase II expansion BOT project of Anzhen sewage treatment plant in Xishan District, Wuxi is 14.5 years (calculated from formal operation date with one phase of construction included). As discussed with the Management, the end date of the period is 27 September 2033. At last, the yield period of Wuxi Yunshui Water Investment Co., Ltd.\* (無錫雲水水務投資有限公司) has been determined as the validity period expected from January 2023 to September 2033, and the project will be transferred by Party B to Party A free of charge after expiration.

(7) Determination of future income

The Phase II Expansion of Anzhen Sewage Treatment Plant in Xishan District, Wuxi was completed and commenced trial operation in March 2019. Its commercial operation date is on 1 April 2020. Pursuant to the Franchise Agreement for Phase II Expansion BOT Project of Anzhen Sewage Treatment Plant in Xishan District, Wuxi entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* and Yunnan Water Investment Co., Limited\* in November 2016, the major revenue of the franchise right is the sewage treatment fees charging to Party A. The construction scale of the project is 30,000 m<sup>3</sup>/day. With effect from the commercial operation date, basic water volume (being minimum water volume) amounts to 30,000 m<sup>3</sup>/day. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB2.643/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. The evaluation does not take into account

the impact of price adjustment. Party B is entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 14.5 years (calculated from formal operation date with one phase of construction included) and terminate on 11 March 2034. Party B shall transfer the project to Party A free of charge after expiration.

The main indicators involved in the future income forecast for Wuxi Yunshui Water Investment Co., Ltd.\* is minimum water volume and unit fee of sewage treatment. The minimum water volume is calculated according to the minimum water volume stated in the BOT agreement. The unit fee of sewage treatment is RMB2.643/ton (tax included) according to the Franchise Agreement for Phase II Expansion BOT Project of Anzhen Sewage Treatment Plant in Xishan District, Wuxi, which was entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal \* and Yunnan Water Investment Co., Limited\*.

## *2. Rationale of Asset-based Approach*

We have evaluated the entire shareholders' equity interests of Wuxi Yunshui Water Investment Co., Ltd.\* through asset-based approach. That is, firstly, we adopt proper approach to evaluate the market value of each type of assets and calculate the appraised value of the entire shareholders' equity interests by deducting liabilities from summed-up amount of all assets of Wuxi Yunshui Water Investment Co., Ltd.\*

Valuation methods of each type of assets and liabilities are as follows:

- (1) Monetary fund is bank deposits. The value of RMB-denominated monetary funds shall be determined based on verified book value.
- (2) Other creditor's assets: mainly include receivables, prepayments and other receivables. Based on in-depth investigation into and analysis of relevant transactions, aging and repayment progress, with a particular focus on major debtors' capital use and operational status, their appraised values are determined based on recoverable amount.
- (3) Inventories: include turnover materials, etc. The value of the purchased inventories with natures of short storage time, strong liquidity and steady market price shall be determined based on verified book value.
- (4) Equipment

The valuation mainly adopts the cost approach based on the features of the equipment, types of appraised value, information collection status and other relevant conditions.

The calculation formula of the cost approach is as follows:

Appraised value = replacement cost × newness rate

As at the valuation reference date, the appraised enterprise was a general taxpayer. According to the relevant national VAT policy, input VAT paid on fixed assets purchased by the enterprise is deductible. For the equipment assessment, none of the replacement cost includes input VAT.

(5) Intangible asset

The intangible asset is franchise.

Intangible asset - franchise: In the valuation, the income approach (i.e. the multi-period Excess Earning Method) was used to determine the market value of the asset within the scope of franchise.

Excess Earning Method is an appraisal method that uses the discounted value of earnings attributable to the target asset to determine the approach for the valuation of such asset.

More precisely, the overall income of the asset group generated from the target asset and other related contributing assets is firstly calculated, then the corresponding contribution of other related contributing assets is deducted from such overall income, and the remaining income is recognized as excess income and considered to be the income from the target asset. The foresaid income will be converted to its present value by applying an appropriate discount rate so as to obtain the value of the target asset.

Other related contributing assets generally include working capital, fixed assets/other long-term assets, other intangible assets and portfolio labor costs. The calculation formula of the excess earnings method is as follows:

$$P = \sum_{t=1}^n \frac{F_t}{(1+r)^t}$$

Of which:

P - Target asset value;

$F_t$  - Expected excess earning from the asset in year t;

r - Discount rate;

n - Yield period.

The main parameters adopted for the franchise, such as revenues, costs, forecast period, are consistent with the parameters of the income approach, and the forecast period is from 2023 to 27 September 2033 with a discount rate of 8.55%.

(6) Deferred income tax assets

For the assessment of deferred income tax assets, the appraisers verified the consistency between the sub-ledger, general ledger and balance in the statements, and the valuation schedules, and checked the payments, time of occurrence, details of transactions and other accounting records in order to verify the authenticity and completeness of deferred income tax assets. Upon verification, the appraised value is determined by the assets and rights attributable to the asset holders, without duplication with other appraised targets, after fulfilling the purpose of appraisal.

(7) Liabilities

Liabilities mainly include payables, employee remuneration payables, tax payables, other payables, non-current liabilities due in one year, long-term borrowings and estimated liabilities. The asset appraiser reviews and verifies the liabilities of the enterprise and, upon verification, the amount of liabilities actually required to be borne by the enterprise as at the valuation reference date will be taken as the appraised value of the liabilities.

### **VIII. Valuation Conclusion and Its Validity Period**

As of the valuation reference date, i.e. 31 December 2022, the carrying value of the owners' equity of Wuxi Yunshui Water Investment Co., Ltd.\* included in the scope of valuation was RMB23,782,400. The valuation conclusion under the income approach has been adopted by this valuation as the final valuation conclusion: on the premise of going concern, the value of the entire shareholders' equity of Wuxi Yunshui Water Investment Co., Ltd.\* was RMB57,046,000 with an appreciation in value of RMB33,263,600, representing an appreciation rate of 139.87%.

When using the valuation report, the relevant parties are hereby reminded to pay attention to the events set out below:

1. According to the "Announcement of the State Taxation Administration on Matters Concerning the Handling of the Refund of Term-End Excess Input Value-Added Tax Credits" (State Administration of Taxation Announcement No. 20, 2019), the Company is entitled to incentive policies for tax credit refund. It is understood that the main reason for the Company to select such incentive policy is that it could receive a large amount of cash at that time, which is beneficial to its operations.

The valuation conclusion will remain valid for a year, from the valuation reference date of 31 December 2022 to 30 December 2023. Except for the special matters mentioned herein, after the valuation reference date and within the validity period, the valuation conclusion shall be valid upon the occurrence of economic behavior, unless significant changes in operating environment materially impact the Company's operations.

**IX. Valuation Conclusion**

*(i) Valuation Results under the Asset-Based Approach*

Based on the principle of independence, fairness and objectivity, and on the premise of going concern, the following valuation results were concluded through necessary asset valuation procedures with asset-based approach:

As at the valuation reference date, i.e. 31 December 2022, the carrying value of total assets of Wuxi Yunshui Water Investment Co., Ltd.\* included in the scope of the valuation was RMB101,162,400, and the appraised value was RMB130,032,700, representing an appreciation of RMB28,870,300 and an appreciation rate of 28.54%. The carrying value of liabilities was RMB77,380,000 and the appraised value was RMB75,269,500 with an impairment amount of RMB2,110,500, representing an impairment rate of 2.73%. The carrying value of the owners' equity was RMB23,782,400, and the appraised value of the entire shareholders' equity was RMB54,763,200 under the premise of maintaining the existing use as a going concern, which represented an appreciation of RMB30,980,800 and an appreciation rate of 130.27%. Valuation results of each asset and liability type are as follows:

Unit: RMB'0,000

<b>Item name</b>	<b>Carrying value</b>	<b>Appraised value</b>	<b>Increase or decrease</b>	<b>Appreciation rate (%)</b>
Current assets	3,949.18	3,949.18		
Non-current assets	6,167.06	9,054.09	2,887.03	46.81
Of which: Fixed assets	19.72	21.75	2.03	10.29
Intangible assets	6,094.25	9,032.00	2,937.75	48.21
Deferred income tax assets	53.10	0.34	-52.76	-99.36
<b>Total assets</b>	<b>10,116.24</b>	<b>13,003.27</b>	<b>2,887.03</b>	<b>28.54</b>
Current liabilities	3,177.27	3,177.27		
Non-current liabilities	4,560.73	4,349.68	-211.05	-4.63
<b>Total liabilities</b>	<b>7,738.00</b>	<b>7,526.95</b>	<b>-211.05</b>	<b>-2.73</b>
<b>Owners' equity</b>	<b>2,378.24</b>	<b>5,476.32</b>	<b>3,098.08</b>	<b>130.27</b>

(For the details of the valuation conclusion, please refer to the valuation list).

*(ii) Valuation Result under the Income Approach*

By investigating into, researching and analyzing the enterprise's asset management and its various historical financial information, the valuation professionals have considered enterprise's status and the impacts of national macro-economic policies and the environment the enterprise is in, analyzed the related operational risks, and convened with the enterprise's managers, financial staff and technicians. Based on the premise of continuing operation and evaluation assumptions, the professionals reasonably forecasted income and discount ratio for the next few years and concluded that the value of entire shareholders' equity amounted to RMB57,046,000.



The main reason for the increase in value is that the Target Companies can bring higher substantial benefits in the future, resulting in an increase in the valuation.

*(iii) Analysis of the Valuation Results and the Final Valuation Conclusion*

*1. Analysis of difference between valuation results*

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach. The valuation result under the income approach was RMB57,046,000, which was RMB2,282,800 more than the valuation result under the asset-based approach of RMB54,763,200, and the difference ratio was 4.17%.

The difference between the valuation results under these two approaches is mainly due to:

- (1) The valuation under the asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets (costs of purchase and construction), usually this type of costs of purchase and construction vary according to the changes in the national product.
- (2) The valuation under the income approach uses the expected income of assets as the valuation standards, reflecting the degree of the operating capability (profitability) of the assets, usually this type of profitability is affected by the several conditions such as the macro economy, government control and effective utilization of the assets etc.

The difference between the valuation results under these two approaches results from the difference of valuation standards and factors affected under these two appraisal approaches.

*2. Selection of the final valuation conclusion*

In summary, the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company. Therefore, the valuation result of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at the valuation reference date, i.e. 31 December 2022, the book value of owners' equity included in the valuation scope of Wuxi Yunshui Water Investment Co., Ltd.\* was RMB23,782,400, and the appraised value of total shareholders' equity interests was RMB57,046,000, with an appreciation amount of RMB33,263,600, representing an appreciation rate of 139.87%.

**The above has been extracted from the full text of the asset valuation report. In order to fully understand the valuation and have a correct understanding of the valuation conclusion, you should carefully read the full text of the asset valuation report.**

\* *The English names are for reference only.*

The following contents are extracted from the Valuation Report of Ehu Yunshui.

**Summary of the Asset Valuation Report  
on the Value of the Entire Shareholder's equity of  
Wuxi Ehu Yunshui Water Investment Co., Ltd.\*  
(無錫鵝湖雲水水務投資有限公司)  
Involved in the Proposed Transfer of 100% Equity Interest in  
Ehu Yunshui Water Investment Co., Ltd.\* Though public tender by  
Yunnan Water Investment Co., Limited**

**Vocation International Ping Bao Zi (2023) No.2530**

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**To Yunnan Water Investment Co., Limited\*:**

Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) has accepted your company's engagement to conduct a valuation on the market value as at 31 December 2022 of the entire shareholder's equity in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* involved in the economic behavior of the proposed transfer of 100% of equity interest in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*, pursuant to the laws, administrative regulations and asset valuation standards, and by adhering to the principles of independence, objectivity and impartiality and adopting asset-based approach and income approach in accordance with the necessary valuation procedures. The asset valuation performance and the summary of the valuation results are as follows:

**I. Purpose of Valuation**

The economic behavior of the proposed transfer of 100% of equity interest in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\* has been approved by the resolutions in respect of the proposed transfer of 100% of equity interest in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*.contained in "Resolution of the 297th Meeting of the First Session of the Board of Directors (Board Meeting of Yunnan Health & Cultural Tourism Holding Group Co., Ltd.(雲南省康旅控股集團有限公司) (2023) No. 06) (《第一屆董事會第297次會議決議》(雲康旅董決會議〔2023〕06號))" of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. dated 1 November 2023 and "Minutes of the 35th Session of the General Manager's Office Meeting of Yunnan Water Investment Co., Limited\*(《雲南水務投資股份有限公司總經理辦公會議紀要》第35期)" dated 16 August 2023.

**II. Valuation Target and Valuation Scope**

The valuation target is the value of the entire shareholder's equity in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* involved in the proposed transfer of 100% of equity interest in Wuxi Ehu Yunshui Water Investment Co., Ltd.\* through public tender by Yunnan Water Investment Co., Limited\*; and the scope of valuation covers all the assets and relevant liabilities declared by Wuxi Ehu Yunshui Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior.

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## APPENDIX IV SUMMARY OF VALUATION REPORT OF EHU YUNSHUI

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The financial statements of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and relevant audit conclusions are set out in Da Hua Shen Zi [2023] No. 200991 audit report.

### III. Valuation Scope

The scope of valuation covers all the assets and relevant liabilities declared by Wuxi Ehu Yunshui Water Investment Co., Ltd.\* on the valuation reference date involved in the economic behavior. The financial statements of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and the relevant audit report Da Hua Shen Zi [2023] No. 200991 was issued on 18 December 2023.

As of 31 December 2022, the valuation reference date, the carrying value of the owners' equity of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* included in the scope of valuation was RMB10,139,600. The carrying values of the various types of assets and liabilities within the scope of the valuation are set out in the table below:

	Unit: RMB0'000
<b>Assets</b>	<b>31 December 2022</b>
Current assets	1,542.13
Non-current assets	2,378.58
Fixed assets, net	1.71
Intangible assets	2,340.56
Including: franchise right	2,340.56
Long term deferred expenses	18.00
Deferred income tax assets	18.31
<b>Total assets</b>	<b>3,920.72</b>
Current liabilities	1,272.94
Non-current liabilities	1,633.82
<b>Total liabilities</b>	<b>2,906.76</b>
<b>Owners' equity</b>	<b>1,013.96</b>

*Note:* The above financial data have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued an unqualified audit report.

The core operating assets of the appraised entity mainly include franchise right. Project name: Phase II Expansion BOT Project of Ehu Sewage Treatment Plant in Xishan District, Wuxi. Project scope: all facilities of phase II project within red line of the sewage treatment plant project. Project scale: construction scale is 10,000 m<sup>3</sup>/d. Project address: north of Inner Ring north Road, east of Xinyang Road and west of Baimitang in Ehu Town, Xishan District, Wuxi.

The franchise right has been approved by the People's Government of Xishan District, Wuxi. The appraised entity has the exclusive right, which was authorized in accordance with this agreement, to finance, design, construct, operate and maintain project facilities and receive service fees for sewage

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## APPENDIX IV SUMMARY OF VALUATION REPORT OF EHU YUNSHUI

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treatment during franchise period. Pursuant to the agreement, the appraised entity shall bear the costs, liabilities and risks by itself during the franchise period, and shall be responsible for the investment and financing, design, construction, operation and maintenance of the sewage treatment plant. All the rights, ownerships and interests of the project shall be handed over to the authorizer or its designated institution when it meets all relevant standards and when the franchise period expires.

The phase II project was completed and commenced trial operation in January 2019. Its commercial operation date is on 1 January 2020, with effect from which the basic water volume amounts to 10,000 m<sup>3</sup>/d. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB2.528/m<sup>3</sup> (tax included) at the beginning of trial operation. The price is adjusted every two years. Both parties conduct valuation based on price adjustment formula every two years to decide whether to adjust the basic unit price and over inflow unit price of sewage treatment. The treatment unit price determined on last price adjustment date remains unchanged until next one. When adjusting sewage treatment price, Party B will calculate the adjustment range in accordance with the formulas specified in Appendix VIII and submit an application before 7 January of every adjustment year. Party A shall report to price administrator for approval after verification within thirty working days after the application is received. Party B is entitled to national latest tax favourable policies in accordance with laws. The fixed sewage treatment fee payable by Party A to Party B amounts to RMB500,000 per month and shall be paid once every two months. The remaining payable amount calculated according to the Concession Agreement will be paid in full by Party A in one go in every year end settlement.

The franchise period shall be 15.2 years (calculated from formal operation date with one phase of construction included) and terminate on 11 March 2034. Party B shall transfer the project to Party A free of charge after expiration. The sewage treatment of Phase II project adopts integrated MBR technology. The outflow water after treatment meets a standard higher than GB18918-2002 Class I A standard of “Discharge Standards on Pollutants from Urban Sewage Treatment Plants” (《城鎮污水處理廠污染物排放標準》). Tail water after treatment will flow first into Baimitang and finally into Wangyu River. Sewage water will be directly discharged into river after treatment without reclaimed water sales. Sewage sludge will be incinerated by Wuxi Guo Lian Lv You Environmental Technology Limited\* (無錫國聯綠由環保科技有限公司) as entrusted by Wuxi Zhongfa. The entrustment price is RMB350/ton with government subsidy of RMB268/ton, and the practical price payable is RMB82/ton.

Major structures include fine screen, aerated grit chamber and fine screen pool, integrated MBR pool, reclaimed water pool, reclaimed water pump room, sludge thickener and auxiliary room. Existing coarse screen and influent pump station, blower room, dehydration machine room and power substation are continued to be used. The land occupied by the sewage treatment plant of the appraised entity is owned by Wuxi Xishan Sewage Water Treatment Limited\* (無錫市錫山污水處理有限公司). A leasing agreement has been signed, which specifies that the land is provided to the appraised entity for use free of charge before expiration of franchise right.

**IV. Type of Value**

Market value.

**V. Valuation Reference Date**

31 December 2022.

**VI. Valuation Method**

Asset-based approach, income approach.

**VII. Valuation Method**

***(I) Selection of Valuation Method***

***1. Basis of Selecting Valuation Method***

- (1) Article 16 of the Basic Standards for Asset Valuation stipulates that “the valuation methods of determining asset value include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods in accordance with laws.”
- (2) Article 17 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that “when evaluating enterprise value, the suitability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods.”
- (3) Article 18 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that “if different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation.”

***2. Suitability of Valuation Method***

**(1) Income approach**

The income approach in the valuation of enterprises refers to the approach in which the expected income shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the income approach based on the historical operations of the appraised entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of discounted dividend method and discounted cash flow method.

The discounted dividend method refers to the method in which the appraisal target's value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests. Discounted cash flow method generally consists of the discounted corporate free cash flows model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the appraised entity's sectors, operational modes, capital structure and development trends.

(2) Market approach

The market approach in the valuation of enterprises refers to the approach in which the appraisal target shall be compared with comparable listed companies or transactions so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess suitability of the market approach based on adequacy and reliability of the operational and financial data collected on comparable companies, as well as the number of comparable companies to be collected.

The market approach primarily consists of the method of comparing with listed companies and the method of comparing with comparable transactions.

The method of comparing with comparable listed companies refers to the method in which operational and financial data of comparable listed companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the listed company and the appraised entity. The method of comparing with comparable transactions refers to the method in which information on trade, acquisition and merger cases of comparable companies are collected and analyzed, and the value ratios are calculated to determine the value of the appraisal target based on comparative analysis of the transactions and the appraised entity.

(3) Asset-based approach

Asset-based approach in the valuation of enterprises refers to the approach in which, based on the balance sheet of the appraised entity on the valuation reference date, the value of identifiable assets and liabilities on and off the balance sheet shall be evaluated so as to determine the value of the appraisal target. Suitability of the asset-based approach shall be reassessed if the appraisal target carries assets or liabilities that are difficult to identify and evaluate, and can exert material impact upon the appraisal target's value.

3. *Selection of Valuation Method*

Analysis of Suitability of the Three Valuation Methods for the Project:

(1) Analysis of suitability of income approach:

Considering that Wuxi Ehu Yunshui Water Investment Co., Ltd. \* (無錫鵝湖雲水水務投資有限公司) is a long-established company with a relatively stable historical annual performance, and its expected future revenue can be forecasted and measured in currency, and the risks that such revenue are exposed to can also be gauged, therefore, the income approach was applicable for valuation of this project.

(2) Analysis of suitability of market approach:

Considering that there are not enough comparable listed companies operating in the same industry as Wuxi Ehu Yunshui Water Investment Co., Ltd. \* in China's capital market, and there are rare transaction cases in the same industry at the same time, and relevant disclosure is inadequate, therefore, the market approach was not applicable for this project.

(3) Analysis of suitability of asset-based approach:

Considering that the assets and liabilities entrusted to be evaluated can be inspected onsite and adequate information can be provided for valuation of such assets and liabilities, therefore, the asset-based approach was adopted for valuation of this project.

In summary, for this valuation, we selected the income approach and the asset-based approach to evaluate the valuation target.

**(II) Rationale of Valuation Method**

*1. Rationale of Income Approach*

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the valuation reference date, and select the discounted corporate free cash flows model as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows of the appraised entity during the income period, summing up after its discounting by using the appropriate discount rate.

The total value of the appraised entity is calculated on the basis of the main business value of the appraised entity, plus the value of non-operating and surplus assets and minus the value of non-operating and surplus liabilities, and the value of entire shareholders' equity is derived by further minus the value of interest-bearing debts.

In the discounted corporate free cash flows model, the following matters need to be further explained:

(1) Calculation of corporate free cash flows (FCFF)

FCFF = net profit after tax + depreciation and amortization + finance cost after tax — capital expenditure — additional working capital

(2) Calculation of the main business value of the appraised entity

The calculation formula of the main business value of the appraised entity is as follows:

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

Wherein: P: Value of operating assets of the enterprise as at the valuation reference Date;

FCFF<sub>i</sub>: Expected corporate free cash flows of the enterprise in the coming i year after the valuation reference date;

FCFF<sub>n</sub>: Corporate free cash flows of the enterprise during the recovery period;

r: Discount rate (here refers to the weighted average cost of capital (WACC));

n: Forecast period;

i: The coming i year of the forecast period;

Among which, the discount rate (weighted average cost of capital (WACC)) is calculated as follows:

$$WACC = K_e \times \frac{E}{D+E} + K_d \times (1-T) \times \frac{D}{D+E}$$

Wherein: E: Market value of equity;

D: Market value of debt;

K<sub>e</sub>: Cost of equity capital;

K<sub>d</sub>: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital is calculated according to the capital asset pricing model (CAPM) model. The calculation formula is:

$$K_e = R_f + MRP \times \beta + R_c$$



Wherein:  $R_f$ : Risk-free rate of return;

MRP: Market risk premium;

$\beta$ : System risk coefficient of equity;

$R_c$ : Enterprise-specific risk coefficient.

(3) Scope of non-operating and surplus assets

The scope of non-operating and surplus assets includes surplus assets and non-operating assets, and the value of non-operating and surplus assets is equal to the sum of surplus assets value and non-operating assets value.

① Surplus assets and non-operating assets

The assets of the appraised entity are classified into two categories as at the valuation reference date: operating and non-operating assets. Operating assets refer to the assets related to the appraised entity's operations, and are further classified into efficient assets and inefficient assets. The efficient assets refer to assets that are being used or will be used for the entity's production and operation; inefficient assets are also named surplus assets, referring to assets that are held for operating purpose, but are not used at the valuation reference date or will not be used in the foreseeable future.

Surplus and non-operating assets are defined as follows:

Surplus assets refer to superfluous assets that are held for operational purpose, but have no direct link to the income of the enterprise and exceed the required amount for the operation of the enterprise in a specific period of time. We analyzed the appraised entity's asset allocation and profitability status, as well as its operational status to determine whether the appraised entity has surplus assets.

Non-operating assets refer to assets that are held for non-operating purpose, and have no direct link to production and operating activities of the enterprise, such as the properties occupied by shareholders for residential use, vehicles used by shareholders, short-term equity and bond investments concerning industrial and manufacturing companies, and transactions amounts with related companies irrelevant to the main business of the enterprise.

The valuation of surplus assets and non-operating assets is based on asset characteristics and conducted with different valuation methods.

(4) Scope of non-operating and surplus liabilities

The scope of non-operating and surplus liabilities includes surplus liabilities, non-operating liabilities, etc. Correspondingly, the value of non-operating and surplus liabilities is equal to the sum of the value of the surplus liabilities and the non-operating liabilities.

(5) Calculation of value of entire shareholders' equity

The formula for calculating the value of entire shareholders' equity is:

Value of entire shareholders' equity = total value of the enterprise — value of interest-bearing debts

Total value of the enterprise = value of main business of the enterprise + value of non-operating and surplus assets — value of non-operating and surplus liabilities

(6) Determination of yield period

The Franchise Agreement for Phase II Expansion BOT Project of Sewage Treatment Plant in Ehu, Xishan District, Wuxi\* (《錫市錫山區鵝湖污水處理廠二期擴建BOT項目特許經營協議》), which was entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal\* (無錫市錫山區住房和城鄉建設局) and Yunnan Water Investment Co., Limited\* (雲南水務投資股份有限公司) in November 2016, stipulated that the franchise term for phase II expansion BOT project of sewage treatment plant in Ehu, Xishan District, Wuxi is 15.2 years (calculated from formal operation date with one phase of construction included). As discussed with the Management, the end date of the period is 11 March 2034. At last, the yield period of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* (無錫鵝湖雲水水務投資有限公司) has been determined as the validity period expected from January 2023 to March 2034, and the project will be transferred by Party B to Party A free of charge after expiration.

(7) Determination of future income

The sewage treatment plant in Ehu, Xishan District, Wuxi was completed and commenced trial operation in January 2019. Its commercial operation date is on 1 January 2020. Pursuant to the Franchise Agreement for Phase II Expansion BOT Project of Sewage Treatment Plant in Ehu, Xishan District, Wuxi entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal and Yunnan Water Investment Co., Limited\* in November 2016, the major revenue of the franchise right is sewage treatment fee charging to Party A. The construction scale of the project is 10,000 m<sup>3</sup>/d. With effect from the commercial operation date, basic water volume (being minimum water volume) amounts to 10,000 m<sup>3</sup>/d. Basic water volume (being minimum water volume) shall prevail if inflow volume is under basic water volume, while practical inflow volume shall prevail if inflow volume is above basic water volume (being minimum water volume). Basic unit price of sewage treatment was RMB2.528/m<sup>3</sup> (tax included) at the beginning of trial operation. The contract unit price is adjusted every two years. The evaluation does not take into account the impact of price adjustment. Party B is entitled to entitled to national latest tax favourable policies in accordance with laws. The franchise period shall be 15.2 years (calculated from formal operation date with one phase of construction included) and terminate on 11 March 2034. Party B shall transfer the project to Party A free of charge after expiration.

The main indicators involved in the future income forecast for Wuxi Ehu Yunshui Water Investment Co., Ltd.\* is minimum water volume and unit fee of sewage treatment. The minimum water volume is calculated according to the minimum water volume stated in the BOT agreement. The unit fee of sewage treatment is RMB2.528/ton (tax included) according to the Franchise Agreement for Phase II Expansion BOT Project of Sewage Treatment Plant in Ehu, Xishan District, Wuxi, which was entered into by the Housing and Urban-Rural Development Bureau of Xishan District, Wuxi Municipal \* and Yunnan Water Investment Co., Limited\*.

## 2. *Rationale of Asset-based Approach*

We have evaluated the entire shareholders' equity interests of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* through asset-based approach. That is, firstly, we adopt proper approach to evaluate the market value of each type of assets and calculate the appraised value of the entire shareholders' equity interests by deducting liabilities from summed-up amount of all assets of Wuxi Ehu Yunshui Water Investment Co., Ltd.\*

Valuation methods of each type of assets and liabilities are as follows:

- (1) Monetary funds are bank deposits. The value of RMB-denominated monetary funds shall be determined based on verified book value.
- (2) Other credit assets: mainly include receivables, prepayments and other receivables. Based on in-depth investigation into and analysis of relevant transactions, aging and repayment progress, with a particular focus on major debtors' capital use and operational status, their appraised values are determined based on recoverable amount.
- (3) Inventories: include turnover materials, etc. The value of the purchased inventories with natures of short storage time, strong liquidity and steady market price shall be determined based on verified book value.
- (4) Other current assets

According to the detailed declaration form for asset valuation provided by appraised enterprise, the assessment professionals are aware of the tax policies such as the VAT rate and payment system that should be borne by the appraised enterprise. The assessment professionals verify the latest tax clearance certificate of the appraised enterprise as well as the records of tax payables as at the valuation reference date. The appraised values of other current assets are determined based on verified book value.

### (5) Equipment

The valuation mainly adopts the cost approach based on the features of the equipment, types of appraised value, information collection status and other relevant conditions.

The calculation formula of the cost approach is as follows:

Appraised value = replacement cost × newness rate

As at the valuation reference date, the appraised enterprise was a general taxpayer. According to the relevant national VAT policy, input VAT paid on fixed assets purchased by the enterprise is deductible. For the equipment assessment, none of the replacement cost includes input VAT.

(6) Intangible asset

The intangible asset is franchise.

Intangible asset - franchise: In the valuation, the income approach (i.e. the multi-period Excess Earning Method) was used to determine the market value of the asset within the scope of franchise.

Excess Earning Method is an appraisal method that uses the discounted value of earnings attributable to the target asset to determine the value of such asset.

More precisely, the overall income of the asset group generated from the target asset and other related contributing assets is firstly calculated, then the corresponding contribution of other related contributing assets is deducted from such overall income, and the remaining income is recognized as excess income and considered to be the income from the target asset. The foresaid income will be converted to its present value by applying an appropriate discount rate so as to obtain the value of the target asset.

Other related contributing assets generally include working capital, fixed assets/other long-term assets, other intangible assets and portfolio labor costs. The formula for calculating the excess earnings method is as follows:

$$P = \sum_{t=1}^n \frac{F_t}{(1+r)^t}$$

Of which:

P - Target asset value;

F<sub>t</sub> - Expected excess earning from the asset in year t;

r - Discount rate;

n - Yield period.

The main parameters adopted for the franchise, such as revenues, costs, forecast period, are consistent with the parameters of the income approach, and the forecast period is from 2023 to 11 March 2034 with a discount rate of 8.63%.

(7) Long term deferred expenses

The establishment of the relevant technology projects, the original accounting records and the amortization system will be verified to ascertain that the book accounting content is in line with the actual. The long term deferred expenses have been evaluated in the franchise.

(8) Deferred income tax assets

For the assessment of deferred income tax assets, the appraisers verified the consistency between the sub-ledger, general ledger and balance in the statements, and the valuation schedules, and checked the payments, time of occurrence, details of transactions and other accounting records in order to verify the authenticity and completeness of deferred income tax assets. Upon verification, the appraised value is determined by the assets and rights attributable to the asset holders, without duplication with other appraised targets, after fulfilling the purpose of appraisal.

(9) Liabilities

Liabilities mainly include payables, employee compensation payables, other payables, non-current liabilities due in one year, long-term borrowings and projected liabilities. The asset appraiser reviews and verifies the liabilities of the enterprise and, upon verification, the amount of liabilities actually required to be borne by the enterprise as at the valuation reference date will be taken as the appraised value of the liabilities.

### **VIII. Valuation Conclusion and Its Validity Period**

As of the valuation reference date, i.e. 31 December 2022, the carrying value of the owners' equity of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* included in the scope of valuation was RMB10,139,600. The valuation conclusion under the asset-based approach has been adopted by this valuation as the final valuation conclusion: On the premise of going concern, the value of the entire shareholders' equity of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* was RMB18,440,300 with an appreciation in value of RMB8,300,700, representing an appreciation rate of 81.86%.

When using the valuation report, the relevant parties are hereby reminded to pay attention to the events set out below:

1. According to the Announcement No. 40 of the Ministry of Finance and the State Administration of Taxation in 2021 "Announcement of the Ministry of Finance and the State Administration of Taxation on improving the value-added tax policy for comprehensive utilization of resources — taxpayers who are engaged in the projects of 5.2 'Sewage treatment labour' (《財政部稅務總局關於完善資源綜合利用增值稅政策的公告》——納稅人從事《目錄》5.2“污水處理勞務”項目)", Wuxi Ehu Yunshui Water Investment Co., Ltd.\* has selected the policy of 70% recovery upon payment of VAT and obtained filing for recovery upon payment from the Administration of Taxation in 2018 (Document No.: 錫山國稅稅通 (2018) 4864號). According to Article 10 of Document No. 14 of 2022, any application for change to tax credit refund should be made in one go by October 2022.

## APPENDIX IV SUMMARY OF VALUATION REPORT OF EHU YUNSHUI

As the Company has made no such change as of the valuation reference date, the valuation is estimated to be conducted based on the actual situation of the Company, i.e. the recovery upon payment of VAT policy, during the forecast period, which is drawn to the attention of the report users.

The valuation conclusion will remain valid for a year, from the valuation reference date of 31 December 2022 to 30 December 2023. Except for the special matters mentioned herein, after the valuation reference date and within the validity period, the valuation conclusion shall be valid upon the occurrence of economic behavior, unless significant changes in operating environment materially impact the Company's operations.

### IX. VALUATION CONCLUSION

#### (i) Valuation Results under the Asset-Based Approach

Based on the principle of independence, fairness and objectivity, and on the premise of going concern, the following valuation results were concluded through necessary asset valuation procedures with asset-based approach:

As at the valuation reference date, i.e. 31 December 2022, the carrying value of total assets of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* included in the scope of the valuation was RMB39,207,200, and the appraised value was RMB45,540,500, representing an appreciation of RMB6,333,400 and an appreciation rate of 16.15%. The carrying value of liabilities was RMB29,067,600 and the appraised value was RMB28,339,400 with an impairment amount of RMB728,200, representing an impairment rate of 2.51%. The carrying value of the owners' equity was RMB10,139,600, and the appraised value of the entire shareholders' equity was RMB17,201,100 under the premise of maintaining the existing use as a going concern, which represented an appreciation of RMB7,061,500 and an appreciation rate of 69.64%. Valuation results of each asset and liability type are as follows:

Unit: RMB'0,000

Item name	Carrying value	Appraised value	Increase or decrease	Appreciation rate (%)
Current assets	1,542.13	1,542.13		
Non-current assets	2,378.58	3,011.92	633.34	26.63
Of which: Fixed assets	1.71	1.81	0.11	6.21
Intangible assets	2,340.56	3,010.00	669.44	28.60
Long term deferred expenses	18.00		-18.00	-100.00
Deferred income tax assets	18.31	0.11	-18.20	-99.41
<b>Total assets</b>	<b>3,920.72</b>	<b>4,554.05</b>	<b>633.34</b>	<b>16.15</b>
Current liabilities	1,272.94	1,272.94		
Non-current liabilities	1,633.82	1,561.00	-72.82	-4.46
<b>Total liabilities</b>	<b>2,906.76</b>	<b>2,833.94</b>	<b>-72.82</b>	<b>-2.51</b>
<b>Owners' equity</b>	<b>1,013.96</b>	<b>1,720.11</b>	<b>706.15</b>	<b>69.64</b>

(For the details of the valuation conclusion, please refer to the valuation list).

***(ii) Valuation Result under the Income Approach***

By investigating into, researching and analyzing the enterprise's asset management and its various historical financial information, the valuation professionals have considered enterprise's status and the impacts of national macro-economic policies and the environment the enterprise is in, analyzed the related operational risks, and convened with the enterprise's managers, financial staff and technicians. Based on the premise of continuing operation and evaluation assumptions, the professionals reasonably forecasted income and discount ratio for the next few years and concluded that the value of entire shareholders' equity amounted to RMB18,440,300.

The main reason for the increase in value is that the Target Companies can bring higher substantial benefits in the future, resulting in an increase in the valuation.

***(iii) Analysis of the Valuation Results and the Final Valuation Conclusion***

***1. Analysis of difference between valuation results***

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach. The valuation result under the income approach was RMB18,440,300, which was RMB1,239,200 more than the valuation result under the asset-based approach of RMB17,201,100, and the difference ratio was 7.20%.

The difference between the valuation results under these two approaches is mainly due to:

- (1) The valuation under the asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets (costs of purchase and construction), usually this type of costs of purchase and construction vary according to the changes in the domestic economy.
- (2) The valuation under the income approach uses the expected income of assets as the valuation standards, reflecting the degree of the operating capability (profitability) of the assets, usually this type of profitability is affected by the several conditions such as the macro economy, government control and effective utilization of the assets etc.

The difference between the valuation results under these two approaches results from the difference of valuation standards and factors affected under these two appraisal approaches.

2. *Selection of the final valuation conclusion*

In summary, the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company. Therefore, the valuation result of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at the valuation reference date, i.e. 31 December 2022, the book value of owners' equity included in the valuation scope of Wuxi Ehu Yunshui Water Investment Co., Ltd.\* was RMB10,139,600, and the appraised value of total shareholders' equity interests was RMB18,440,300, with an appreciation amount of RMB8,300,700, representing an appreciation rate of 81.86%.

**The above has been extracted from the full text of the asset valuation report. In order to fully understand the valuation and have a correct understanding of the valuation conclusion, you should carefully read the full text of the asset valuation report.**

\* *The English names are for reference only.*



**Moore CPA Limited**

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

Dear Sirs,

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

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

We have examined the calculations of the discounted future estimated cash flows on which the valuations prepared by Vocation (Beijing) International Assets Appraisal Co., Ltd. dated 20 December 2023 in respect of the equity interests in Wuxi Zhongfa Water Investment Co., Ltd., Wuxi Yunshui Water Investment Co., Ltd. and Wuxi Ehu Yunshui Water Investment Co., Ltd. (collectively referred to as the “Target Companies”), as at 31 December 2022 (the “Valuations”) are based. The Valuations, prepared in connection with the Target Companies are set out in the announcement dated 24 June 2024 (the “Announcement”) to be issued by Yunnan Water Investment Co., Limited (the “Company”). The Valuations which are based on the discounted future estimated cash flows are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

*Directors’ Responsibilities*

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

*Reporting Accountant's Independence and Quality Management*

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

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

*Reporting Accountant's Responsibilities*

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuations are based and to report solely to you, as a body, as required by Rule 14.60A(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with the terms of our engagement letter dated 6 June 2024 and Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Companies. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

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

*Opinion*

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

Yours faithfully,

**Moore CPA Limited**

*Certified Public Accountants*

**Pak Chi Yan**

Practising Certificate Number: P06923

Hong Kong, 24 June 2024



YUNNAN WATER

雲南水務投資股份有限公司  
**Yunnan Water Investment Co., Limited\***

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

**(Stock code: 6839)**

24 June 2024

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

Dear Sirs,

**RE: ANNOUNCEMENT —  
MAJOR TRANSACTION  
DISPOSAL OF THE DISPOSAL EQUITIES**

We, Yunnan Water Investment Co., Limited (the “**Company**”) (stock code: 6839), refer to the announcement of the Company dated 24 June 2024 (the “**Announcement**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuations conducted by Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司), an independent valuer. The Valuations adopt the income approach, which is based on the discounted cash flow forecast and is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have discussed with the Valuer the different aspects upon which the Valuations were prepared (including the principal and commercial assumptions) and have reviewed the Valuations for which the Valuer is responsible.

Pursuant to Rule 14.60A of the Listing Rules, we have also engaged Moore CPA Limited, acting as the Company's reporting accountants, to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (which does not involve the adoption of accounting policies), and considered the report from Moore CPA Limited which was prepared in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, as set out in Appendix V to the Announcement.

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

Yours faithfully,  
On behalf of the Board  
**Yunnan Water Investment Co., Limited\***  
**Mei Wei**  
*Chairman*

*\* For identification purposes only*

## 1. RESPONSIBILITY STATEMENT

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

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

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

Name of Director, Supervisor and chief executive	Capacity	Type of Shares	Number of Shares held	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Mr. Zhou Zhimi	Beneficial owner	Domestic Shares	325,000 (L)	0.04	0.03

(L) refers to long position

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

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

As at the Latest Practicable Date, (i) Mr. Mei Wei (a non-executive Director) is the secretary of the Party Committee and chairman of Green Environmental Protection; (ii) Mr. Dai Richeng (a non-executive Director) is the president, deputy secretary of the party committee and executive president of Beijing OriginWater; (iii) Mr. Chen Yong (a non-executive Director) is the managing director of Ningbo Kunlun Xinyuan Equity Management Partnership (Limited Partnership)\* (寧波昆侖信元股權管理合夥企業 (有限合夥)) and an authorized representative of the executive partner of Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)\* (煙台信貞添盈股權投資中心 (有限合夥)); (iv) Mr. Long Limin (a Supervisor) is the manager of the planning and procurement department, the chief operating officer, the chief operating officer, the chief procurement officer, the assistant to the president, the vice president and the senior vice president of Beijing OriginWater; and (v) Mr. Zhu Zhen (a Supervisor) is the general manager of the strategic development department of YHTH and the chairman of Caiyun International Investment Limited (彩雲國際投資有限公司). Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Supervisors or chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Green Environmental Protection <sup>1</sup>	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian <sup>1</sup>	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun <sup>1</sup>	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Wang Yong <sup>1</sup>	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd. <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd. <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) <sup>2</sup>	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46
Caiyun International <sup>1</sup>	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH <sup>1</sup>	Interests in controlled corporation	H Shares	8,449,000 (L)	2.32	0.71



*Notes:*

(L) refers to long position

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

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

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

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

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

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

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

#### 4. DIRECTORS’ SERVICE CONTRACTS

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

## 5. COMPETING INTERESTS

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

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

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2023, the date to which the latest published audited consolidated financial statements of the Group were made up, and there is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

## 7. LITIGATION

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

## 8. MATERIAL CONTRACTS

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

- (a) the equity transaction agreement dated 20 December 2022 entered into between Hyflux Utility WWT (MG) Limited (凱發新泉公用事業污水(明光)有限公司) (“**Hyflux Utility**”, being the Company’s wholly-owned subsidiary) and CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司) (“**CGN Environmental Protection**”), pursuant to which, Hyflux Utility agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.\* (凱發污水處理(明光)有限公司) at the consideration of RMB96,523,000;
- (b) the equity transaction agreement dated 28 December 2022 entered into between the Company and CGN Environmental Protection, pursuant to which, the Company agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Lu’an Yeji Yunshui Water Investment Co., Ltd.\* (六安市葉集區雲水水務投資有限公司), at the consideration of RMB87,295,900;

- (c) the equity transaction agreements dated 27 February 2023 entered into between the Company and Beijing Enterprises Water Group (China) Investment Limited\* (北控水務(中國)投資有限公司), pursuant to which, the Company agreed to sell, and Beijing Enterprises Water Group (China) Investment Limited agreed to acquire, 100% equity interest in Honghe Water Industry Investment Co., Ltd.\* (紅河州水務產業投資有限公司) and Shuifu Water Industry Investment Co., Ltd.\* (水富縣水務產業投資有限公司), at the consideration of RMB155,400,000 and RMB28,300,000, respectively;
- (d) the equity transaction agreement dated 14 June 2024 entered into between the Company and Li County State-owned Asset Operation and Management Centre, pursuant to which the Company agreed to sell, and Li County State-owned Asset Operation and Management Centre agreed to acquire, 65% equity interest in Hunan Lizhou Water Co., Ltd.\* (湖南澧州水務有限公司), at the consideration of RMB80,589,416; and
- (e) the Equity Transaction Agreements.

## 9. EXPERTS AND CONSENTS

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

Name	Qualification
Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司)	Professional valuer
Moore CPA Limited	Certified Public Accountants

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

- (a) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up); and
- (c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and its letter in the form and context in which they respectively appear.

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

**10. MISCELLANEOUS**

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

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

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

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

**11. DOCUMENTS ON DISPLAY**

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

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