
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Water Industry Group Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF 51% EQUITY INTERESTS IN
YICHUN WATER INDUSTRY GROUP CO., LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Capitalised terms used on this cover page shall have the same meanings as defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 6 to 20 of this circular. A notice convening the EGM to be held at Office H, 8/F., Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong on Monday, 9 September 2024 at 9:30 a.m. or any adjournment thereof is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are advised to read the notice and complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, being not less than 48 hours (i.e. no later than Saturday, 7 September 2024 at 9:30 a.m.) before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

* *For identification purpose only*

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II — BUSINESS VALUATION REPORT OF THE DISPOSAL GROUP	II-1
APPENDIX III — REPORT FROM THE REPORTING ACCOUNTANT ON THE CALCULATION OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE DISPOSAL GROUP	III-1
APPENDIX IV — LETTER FROM THE FINANCIAL ADVISER IN RELATION TO THE BUSINESS VALUATION OF THE DISPOSAL GROUP	IV-1
APPENDIX V — GENERAL INFORMATION	V-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 26 July 2024 in relation to, among other things, the Disposal
“Approval Procedures”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Consideration” in this circular
“Board”	the board of Directors
“Business Day”	a day other than a Saturday, Sunday or statutory holidays stipulated by the government of the PRC
“Civil Claim”	has the meaning ascribed thereto under the section headed “Letter from the Board — Purchaser’s undertaking” in this circular
“Company”	China Water Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1129)
“Completion”	completion of the Disposal
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	a sum of RMB195,000,000 (equivalent to approximately HK\$211,185,000), being the consideration for the Sale Capital
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Capital by the Vendor to the Purchaser pursuant to the terms and conditions of the Equity Transfer Agreement
“Disposal Company”	宜春水務集團有限公司 (for transliteration purpose only, Yichun Water Industry Group Co., Limited [#]), a company established in the PRC with limited liability and was owned as to 51% by the Vendor and 49% by the Purchaser as at the Latest Practicable Date
“Disposal Group”	Disposal Company and its subsidiaries

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held at Office H, 8/F., Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong on Monday, 9 September 2024 at 9:30 a.m. for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 26 July 2024 and entered into between the Purchaser and the Vendor in respect of the Disposal
“Financial Adviser”	Kingston Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO
“First Installment”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Consideration” in this circular
“Group”	the Company and its subsidiaries
“Handover Procedures”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Handover Procedures” in this circular
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jiangxi Dekang Environmental Testing”	江西德康環境檢測研發有限公司 (for transliteration purpose only, Jiangxi Dekang Environmental Testing and Development Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Jiangxi Dekang Property”	江西德康物業管理有限公司 (for transliteration purpose only, Jiangxi Dekang Property Management Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Jiangxi Dekang Purified Water”	江西德康淨水有限公司 (for transliteration purpose only, Jiangxi Dekang Purified Water Company Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company

DEFINITIONS

“Jiangxi Dekang Water Supply”	江西德康二次供水有限公司 (for transliteration purpose only, Jiangxi Dekang Water Supply Company Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Jiangxi Kangyue Purified Water”	江西康月淨水有限公司 (for transliteration purpose only, Jiangxi Kangyue Purified Water Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Latest Practicable Date”	20 August 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 which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Property Attachment”	has the meaning ascribed thereto under the section headed “Letter from the Board — Purchaser’s undertaking” in this circular
“Purchaser”	宜春市市政發展有限公司 (for transliteration purpose only, Yichun Municipal Development Co., Ltd. [#]), a company established in the PRC with limited liability
“Registration of Equity Transfer”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Registration of Equity Transfer” in this circular
“Sale Capital”	51% registered capital of the Disposal Company, which was beneficially owned by the Vendor as at the Latest Practicable Date
“Second Installment”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Consideration” in this circular
“Share(s)”	share(s) of the Company of HK\$0.01 each

DEFINITIONS

“Shareholder(s)”	holder(s) of issued Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Third Installment”	has the meaning ascribed thereto in the paragraph headed “Letter from the Board — The Equity Transfer Agreement — Consideration” in this circular
“Vendor”	Onfar International Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Yichun City Engineering”	宜春市供水工程有限公司 (for transliteration purpose only, Yichun City Water Supply Engineering Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Yichun City Yutong”	宜春市宇通制水有限公司 (for transliteration purpose only, Yichun City Yutong Water Production Company Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Yichun Fangke”	宜春市方科污水處理有限公司 (for transliteration purpose only, Yichun Fangke Sewage Treatment Company Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Yichun Kun Lun”	宜春昆侖信息科技有公司 (for transliteration purpose only, Yichun Kun Lun Information Technology Company Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company
“Yichun Mingyue”	宜春市明月山方科污水處理有限公司 (for transliteration purpose only, Yichun Mingyue Mountain Fangke Sewage Treatment Co. Limited [#]), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Disposal Company

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

the English translation of Chinese names or words in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words

For the purpose of this circular, unless otherwise indicated, conversion of Renminbi into Hong Kong dollars is calculated at the approximate exchange rate of RMB1.00 to HK\$1.0830. This exchange rate is adopted for the purpose of illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rates at all.

LETTER FROM THE BOARD



中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1129)

Executive Directors:

Mr. Zhu Yongjun (*Chairman*)
Ms. Chu Yin Yin, *Georgiana*

Independent non-executive Directors:

Mr. Wong Siu Keung, *Joe*
Mr. Lam Cheung Shing, *Richard*

Registered office:

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

*Head office and principal place
of business in Hong Kong:*

Office H, 8/F
Kingston International Centre
19 Wang Chiu Road
Kowloon Bay
Hong Kong

23 August 2024

To the Shareholders

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF 51% EQUITY INTERESTS IN
YICHUN WATER INDUSTRY GROUP CO., LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to, among other matters, the Disposal.

On 26 July 2024, the Purchaser and the Vendor, being an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 51% equity interests in the Disposal Company as at the Latest Practicable Date, for a total consideration of RMB195,000,000 (equivalent to approximately HK\$211,185,000).

* *For identification purposes only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Equity Transfer Agreement and the transactions contemplated thereunder; (ii) the business valuation report of the Disposal Group; (iii) the letter from the Reporting Accountant on the discounted cash flows in relation to the valuation of the Disposal Group; (iv) the letter from the Financial Adviser in relation to the profit forecast; and (v) other information as required under the Listing Rules; and (vi) a notice of the EGM.

THE EQUITY TRANSFER AGREEMENT

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

- Date:** 26 July 2024
- Parties:** (i) the Purchaser; and
(ii) the Vendor

The Purchaser is a company established in the PRC with limited liability and is principally engaged in property management, greenery construction, sewage treatment, and machinery and equipment leasing services. As the Purchaser is a substantial shareholder of the Disposal Company as at the Latest Practicable Date, the Purchaser is thus a connected person of the Company at subsidiary level under Chapter 14A of the Listing Rules.

Assets to be disposed of

Pursuant to the terms and conditions of the Equity Transfer Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Capital, representing 51% equity interests in the Disposal Company.

As at the Latest Practicable Date, the Disposal Company was owned as to 51% by the Vendor and 49% by the Purchaser.

Consideration

The Consideration payable for the Sale Capital is RMB195,000,000 (equivalent to approximately HK\$211,185,000), which shall be satisfied by the Purchaser by way of bank transfer in the following manner:

- (i) as to RMB78,000,000 (equivalent to approximately HK\$84,474,000), representing 40% of the Consideration (the “**First Installment**”) shall be payable by the Purchaser to the Vendor within seven (7) Business Days from the date of the Equity Transfer Agreement;

LETTER FROM THE BOARD

- (ii) as to RMB78,000,000 (equivalent to approximately HK\$84,474,000), representing 40% of the Consideration (the “**Second Installment**”), shall be payable by the Purchaser to the Vendor within seven (7) Business Days upon the completion of all procedures (including but not limited to the internal approval procedures of each party thereto) (the “**Approval Procedures**”) and the issue of a written notice of payment by the Vendor to the Purchaser; and
- (iii) the remaining balance as to RMB39,000,000 (equivalent to approximately HK\$42,237,000), representing 20% of the Consideration (the “**Third Installment**”) shall be payable by the Purchaser to the Vendor within seven (7) Business Days after the completion of the Handover Procedures and Registration of Equity Transfer.

In the event that the Purchaser fails to pay the Consideration to the Vendor when due in the manner above, the Purchaser shall pay a compensation for a sum equivalent to 0.01% on the overdue amounts for each day of delay. In the event of any delay in payment of any overdue amounts for more than 30 Business Days, the Vendor shall have the right to terminate the Equity Transfer Agreement and require the Purchaser to pay a compensation for a sum equivalent to 5% of the total Consideration except for reasons due to the Vendor.

Basis of the Consideration

The Consideration was arrived at after arm’s length negotiations between the Vendor and the Purchaser on normal commercial terms, after taking into account, among others, (i) the unaudited net asset value of the Disposal Group attributable to the Group as at 30 June 2024 of approximately HK\$162,948,000; (ii) the past performance of the Disposal Group; (iii) the future prospects and earning capacity of the Disposal Group; and (iv) other factors as set out in the section headed “Letter from the Board — Reasons for and benefits of the Disposal” in this circular below.

In order to assess the fairness and reasonableness of the Consideration, the Company engaged AVISTA Valuation Advisory Limited (the “**Valuer**”), an independent valuer, to conduct a valuation (the “**Valuation**”) on the fair value of 51% equity interest of the Disposal Company.

As provided in the valuation report (the “**Valuation Report**”) issued by the Valuer in relation to the Valuation as set out in Appendix II to this circular, the fair value of 51% equity interest of the Disposal Company as at 30 June 2024 was approximately RMB180,979,000 (equivalent to approximately HK\$196,000,000). It is stated in the Valuation Report that the Valuation was assessed by using the income approach, through the use of the discounted cash flow method, having considered the three generally accepted approaches (namely income approach, asset-based approach and market approach) to appraise the fair value of 51% equity interest of the Disposal Company.

LETTER FROM THE BOARD

Valuation of water supply and construction segment and sewage treatment segment

The valuation of the water supply and construction segment and sewage treatment segment is assessed by using the income approach. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject assets. Under income approach, the value is dependent on the present value of future economic benefits such as cost savings, periodic income, or sale proceeds. This method factors in the specific considerations surrounding the Disposal Company, such as the limited economic lives, and produces more relevant valuation results. Given the management of the Company provided the Valuer with the financial projections of the water supply and construction segment and sewage treatment segment, the income approach (through the use of discounted cash flow method) is adopted for the Valuation.

Under the discounted cash flow method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Asset-based approach is not appropriate in the appraisal of the water supply and construction segment and sewage treatment segment as it assumed the assets and liabilities of the segments are separable and can be sold separately. This methodology is more appropriate for the industry that their assets can be sold separately, like property development and financial institution.

Market approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Due to the uniqueness of location and the limited economic lives of the water supply and construction segment and sewage treatment segment, the Valuer has not identified sufficient recent market transactions comparables to these segments. Valuations based on public listed companies which operate on going concern basis in general is also considered inappropriate.

For the purpose of the Valuation, the Valuer has concluded the Valuation by relying on the available information and presently prevailing operating conditions of the business and taking into consideration, among others, the following factors:

- (i) the Disposal Company will be operated with the corporate structure and operation model as projected by the management of the Company;
- (ii) the nature of business and financial and operating results of the Disposal Company;
- (iii) the economic outlook in general and the specific economic and competitive elements affecting the Disposal Company's businesses, its industry and its market;
- (iv) the nature and prospects of the industries in which Disposal Company is operating;
- (v) the selected comparable companies are engaging in business operations similar to the Disposal Company;

LETTER FROM THE BOARD

- (vi) the market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of business;
- (vii) the stage of development of the Disposal Company's operation; and
- (viii) the business risks of the Disposal Company.

A number of general assumptions have to be made in arriving at the Valuation. The key assumptions adopted in this valuation include:

- (i) there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Disposal Company;
- (ii) there will be no major changes in the current taxation law in the country that the Disposal Company is operating, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- (iii) exchange rates and interest rates will not differ materially from those presently prevailing;
- (iv) the financial projections (the "**Financial Projection(s)**") of the water supply and construction segment and sewage treatment segment have been prepared on a reasonable basis, reflecting estimates (i.e., assumptions and parameters adopted in the Financial Projections) which have been arrived at after due and careful consideration by the management of the Company;
- (v) the availability of finance will not be a constraint on the forecast growth of the Disposal Company's operation in accordance with the Financial Projections;
- (vi) the Disposal Company will retain and have competent management, key personnel, and technical staff to support its ongoing operation;
- (vii) industry trends and market conditions for related industries will not deviate significantly from economic forecasts including but not limit to market relative factors adopted in the discount rates; and
- (viii) it is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, it is assumed that no responsibility for changes in market conditions after the valuation date (i.e., 30 June 2024).

LETTER FROM THE BOARD

A number of special assumptions have to be made in arriving at the Financial Projections of water supply and construction segment. The major assumptions are as follows:

- (i) the projections period for water supply and construction segment was determined based on the contract period of the operating concession right in accordance with the concessionary operation agreement 《城市供水特許經營合同》 entered by 宜春市城市管理局 and Yichun Water (i.e., from 30 June 2024 (the valuation date) to 21 November 2034);
- (ii) it is assumed a 2% annual growth in the volume of daily water supply from the water supply facilities per year until reaching the respective daily capacities, with a total of approximately 290,000 tons per day;
- (iii) it is assumed a price increment of 10% for every 5 years starting from 2025 on the water price throughout the project period to reflect future potential adjustments in water price;
- (iv) with the consideration over future economic prospects of the PRC's real estate market, it is assumed the revenue for the provision of installation services of water supply facilities will revert to the historical level in 2023, with a 2% annual growth since the six months ending 31 December 2024 to reflect the expected long-term annual inflation growth;
- (v) it is assumed a price increase of 10% for every 5 years starting from 2025 on the cost of water supply from 袁河水廠 and 三陽水廠 throughout the project period, which will be consistent with the water price adjustments;
- (vi) it is assumed a 2% annual inflationary growth for the unit price per ton of water for electricity expenses, the unit price per ton of water for water resources expenses, salary and other staff benefits expenses and repair and maintenance expenses;
- (vii) it is assumed that depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets;
- (viii) it is assumed that other expenses are estimated based on the percentage of water supply services revenue with reference to the historical level; and
- (ix) it is assumed that the cost of water supply-related construction and installation business is expected to be approximately 60% of related revenue with reference to the historical level.

LETTER FROM THE BOARD

A number of special assumptions have to be made in arriving at the Financial Projections of sewage treatment segment. The major assumptions are as follows:

- (i) the projections period for sewage treatment segment was determined based on the contract period of the operating concession right in accordance with the concessionary operation agreements 《宜春市污水處理廠“BOT”項目特許經營權合同條款》 & 《宜春市方科污水處理有限公司BOT項目合同書補充協議》 entered by 宜春市綜合行政執法局 and Yichun Fangke (i.e., from 30 June 2024 (the valuation date) to 31 August 2036;
- (ii) it is assumed a 2% annual growth in the volume of daily sewage treatment per year until reaching its daily capacity, with a total of approximately 140,000 tons per day;
- (iii) it is assumed a price increment of 10% for every 5 years starting from 2025 on the unit price throughout the project period to reflect future potential adjustments in sewage treatment price;
- (iv) it is assumed a 2% annual inflationary growth for the unit price per ton of water for electricity expenses, salary and other staff benefits expenses and repair and maintenance expenses;
- (v) it is assumed that depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets; and
- (vi) it is assumed that pharmacy cost and other expenses are estimated based on the percentage of sewage treatment services revenue with reference to the historical level.

As the Valuation has adopted income-based approach through the use of discounted cash flow method, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. In accordance with Rule 14.60A(2) of the Listing Rules, the Reporting Accountant has examined the arithmetical accuracy of the calculations of the discounted future cash flows of the Disposal Group in which the Valuation was based. The Board has reviewed the above principal assumptions and confirmed that the forecast has been made after due and careful enquiry. On the basis of the above, the Financial Adviser is of the view that the forecast has been made after due and careful enquiry of the Directors. A letter from the Reporting Accountant and a letter from the Financial Adviser are included in Appendix III and Appendix IV to this circular, respectively.

Taking into consideration the above, including reviewing the Valuation Report and the underlying valuation methodology and assumptions, the Board considered that the Consideration, representing a premium of approximately 22.8% over the net book value of 51% equity interest of the Disposal Company as at 30 June 2024 of approximately HK\$162,948,000, is fair and reasonable and in the interest of the Company as a whole.

LETTER FROM THE BOARD

Handover Procedures

Within five (5) calendar days after the receipt of the Second Installment by the Vendor, parties to the Equity Transfer Agreement shall jointly commence the handover procedures, including but not limited to the delivery of such resignation letters of the directors and executives of the Disposal Company appointed by the Vendor as required by the Purchaser (the “**Handover Procedures**”). Prior to the completion of the Handover Procedures, the Vendor shall not dispose of any assets of the Disposal Company without authorisation.

Registration of Equity Transfer

Within three (3) Business Days after the completion of the Handover Procedures, the parties to the Equity Transfer Agreement shall jointly carry out the registration of the transfer of the Sale Capital to the Purchaser, including the delivery of the Disposal Company’s assets, such as, the company seals, licenses, title deeds, and books and ledgers (the “**Registration of Equity Transfer**”) and the Registration of Equity Transfer shall be completed within 60 calendar days from the receipt of the Second Installment by the Vendor. In the event that the Vendor fails to cooperate with the Purchaser in completing the Registration of Equity Transfer within the time as stipulated above, the Vendor shall pay to the Purchaser a compensation for a sum equivalent to 0.01% of the Consideration actually received by the Purchaser for each day of delay. In the event of any delay in cooperating with the Purchaser to complete the Registration of Equity Transfer for more than 30 Business Days, the Purchaser shall have the right to terminate the Equity Transfer Agreement and require the Vendor to pay a compensation for a sum equivalent to 5% of the total Consideration except for reasons due to the Purchaser and the relevant authority responsible for the equity transfer procedures.

Termination

In the event that the Equity Transfer Agreement is terminated, revoked or lapsed for reasons other than the Purchaser or policy related reasons, the Vendor shall refund the full amount of all such payment made by the Purchaser within ten (10) calendar days after the issue of written notice for demand by the Purchaser. In the event that the Vendor fails to refund to the Purchaser within the time as stipulated above, the Vendor shall pay to the Purchaser a compensation for a sum equivalent to 0.01% of the Consideration actually received for each day of delay. Thereafter neither party shall have any obligations and liabilities thereunder. The parties to the Equity Transfer Agreement shall cooperate with each other to complete the registration of equity transfer to restore the ownership of the Sale Capital to its original state within ten (10) calendar days after the termination, revocation or lapse of the Equity Transfer Agreement. Thereafter, the Vendor shall be entitled to sell the Sale Capital to a third party.

Completion

Completion shall take place within seven (7) Business Days after the completion of the Handover Procedures and Registration of Equity Transfer, upon which the payment of the Third Installment shall be made by the Purchaser to the Vendor.

LETTER FROM THE BOARD

Upon Completion, the Disposal Company will cease to be a subsidiary of the Company and the financial information of the Disposal Group will cease to be consolidated into the consolidated financial statements of the Group.

PURCHASER’S UNDERTAKING

As disclosed in the announcements of the Company dated 9 May 2024 and 17 June 2024, the Purchaser has applied to Yichun City Yuanzhou District People’s Court of Jiangxi Province for a pre-litigation property attachment (the “**Property Attachment**”), which aims to freeze the Vendor’s 51% equity interests in the Disposal Company, and estop Billion City Investments Limited, being the holding company of the Vendor, from disposing of the entire issued share capital in the Vendor (the “**Previous Proposed Disposal**”). The Company has also received a statement of claim from the Purchaser alleging that, among others, the Company has violated the relevant PRC laws by failing to give written notice to and seek consent from the Purchaser in relation to the Previous Proposed Disposal (the “**Civil Claim**”).

Further, as disclosed in the announcement of the Company dated 25 July 2024, the then purchaser confirmed in writing that it would not proceed with the Previous Proposed Disposal which had been terminated thereafter.

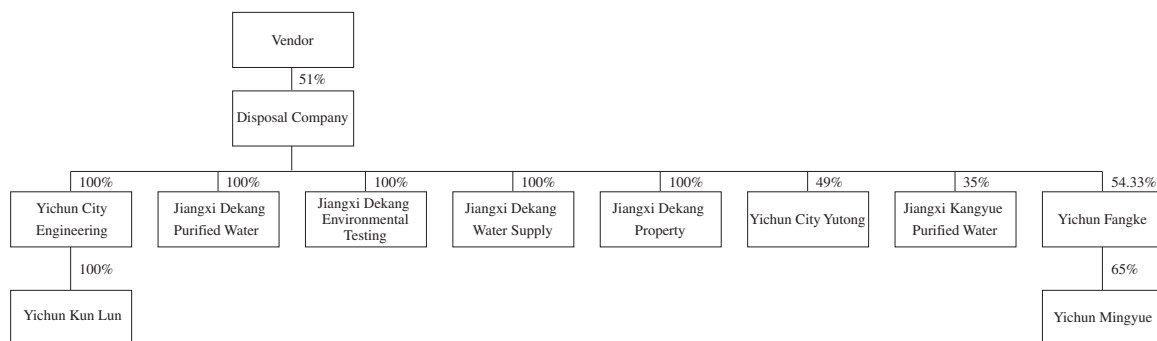
As at the Latest Practicable Date, the 51% equity interests in the Disposal Company held by the Vendor was subject to the Property Attachment.

On 26 July 2024, the Purchaser has given an undertaking in favour of the Vendor that it will, following the execution of the Equity Transfer Agreement and prior to the Handover Procedures and Registration of Equity Transfer, file with the Intermediate People’s Court of Yichun City to withdraw the Civil Claim and discharge the Property Attachment.

INFORMATION ON THE DISPOSAL GROUP

The Disposal Company is a company established in the PRC with limited liability. As at the Latest Practicable Date, the Disposal Company was owned as to 51% by the Vendor and 49% by the Purchaser. It is principally engaged in the provision of water supply and installation of water supply facilities.

The following diagram illustrates a simplified shareholding structure of the Disposal Company and its subsidiaries/associate companies as at the Latest Practicable Date.



LETTER FROM THE BOARD

Yichun City Engineering is principally engaged in the installation of water supply facilities.

Yichun Kun Lun is principally engaged in information services.

Jiangxi Dekang Purified Water is principally engaged in the exploitation, production and sale of purified and drinking system.

Jiangxi Dekang Environmental Testing is principally engaged in environmental testing and product testing.

Jiangxi Dekang Water Supply is principally engaged in construction and management of secondary water supply facilities.

Jiangxi Dekang Property is a dormant company.

Yichun City Yutong is a dormant company.

Jiangxi Kangyue Purified Water is principally engaged in production and supply of water, sales of drinking water equipment.

Yichun Fangke is principally engaged in sewage treatment.

Yichun Mingyue is principally engaged in sewage treatment.

Financial information of the Disposal Group

Set out below is the financial information of the Disposal Group based on the audited consolidated financial statements of the Disposal Group for the two years ended 31 December 2022 and 2023:

	For the year ended	
	31 December	
	2022	2023
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	474,561	336,338
Profit before taxation	75,608	36,078
Profit after taxation	65,892	26,456
Profit after taxation attributable to the owners of the Company	31,868	11,839

LETTER FROM THE BOARD

The total assets, total liabilities and net assets of the Disposal Group as at 31 December 2023 according to its audited consolidated financial statements were approximately HK\$735,619,000, approximately HK\$334,693,000 and approximately HK\$400,926,000, respectively. As at 30 June 2024, the unaudited net assets of the Disposal Group attributable to the Group was approximately HK\$162,948,000.

INFORMATION ON THE PURCHASER

The Purchaser is a company established in the PRC with limited liability and is principally engaged in property management, greenery construction, sewage treatment, and machinery and equipment leasing services. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the Purchaser is owned as to 100% by 宜春市城市建設投資開發有限公司 (for transliteration purpose only, Yichun City Urban Construction Investment Development Co. Limited[#]), which in turn is owned as to 100% by 宜春發展投資集團有限公司 (for transliteration purpose only, Yichun Development Investment Group Co. Limited[#]) (“**Yichun Development**”). Yichun Development is in turn owned as to 90% by 宜春市國有資產監督管理委員會 (for transliteration purpose only, Yichun State-owned Assets Supervision and Administration Commission[#]) and 10% by 江西省行政事業資產集團有限公司 (for transliteration purpose only, Jiangxi Provincial Administrative Assets Group Co.[#]), which is indirectly wholly-owned by Jiangxi Provincial Department of Finance in the PRC.

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, the Disposal Company will cease to be a subsidiary of the Company. As such, the financial information of the Disposal Group will cease to be consolidated into the consolidated financial statements of the Group upon Completion.

Assets and liabilities

Having taken into account the Consideration of RMB195,000,000 (equivalent to approximately HK\$211,185,000) and the audited net assets value of the Disposal Group of HK\$400,926,000 as at 31 December 2023, it is estimated that upon Completion, the total assets, total liabilities and net assets of the Group will be decreased by approximately HK\$524,434,000, HK\$319,108,000 and HK\$205,326,000, respectively.

LETTER FROM THE BOARD

Earnings

Subject to further audit procedures to be performed by the auditor of the Company, the Group is expected to record an unaudited net gain from the Disposal of approximately HK\$21,030,000 which is estimated based on the Consideration of RMB195,000,000 (equivalent to approximately HK\$211,185,000) less the unaudited net assets of the Disposal Group attributable to the Group of approximately HK\$162,948,000 as at 30 June 2024, and after deducting the expenses directly to the Disposal, the related reserve and tax payable in aggregate amount of approximately HK\$27,207,000. The actual amount of gain or loss as a result of the Disposal to be recorded by the Group will be subject to review and final audit by the auditor of the Company.

The net proceeds from the Disposal, after deducting the expenses directly attributable to the Disposal and tax payable in aggregate amount of approximately HK\$15,585,000, will amount to approximately HK\$195,600,000. It is intended that the net proceeds is to be applied as follows:

- (i) as to approximately HK\$21,900,000 for the existing business development;
- (ii) as to approximately HK\$156,480,000 for the repayment of debts; and
- (iii) as to approximately HK\$17,220,000 for the general working capital of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy in the PRC; and (iii) property investment and development. The Vendor is an indirect wholly-owned subsidiary of the Group and is an investment holding company.

For the year ended 31 December 2023 (“FY2023”), the Disposal Group’s revenue and profit after taxation attributable to the owners of the Company were approximately HK\$336,338,000 and approximately HK\$11,839,000, respectively (for the year ended 31 December 2022 (“FY2022”), the Disposal Group’s revenue was approximately HK\$474,561,000 and profit after taxation attributable to the owners of the Company was approximately HK\$31,868,000). Compared with FY2022, the Disposal Group’s revenue and profit after taxation attributable to the owners of the Company decreased by approximately HK\$138,223,000 and approximately HK\$20,029,000, respectively, which were mainly due to the completion of several large-scale construction projects in FY2022 and a decrease in construction activities in FY2023, resulting in a decline in performance in water supply related installation, infrastructure and construction businesses.

LETTER FROM THE BOARD

Over the past few years, the PRC government has been actively promoting the implementation of environmental protection policies to improve the national ecological environment and facilitate sustainable development. However, the changing economic situation has led to increasing financial pressure on the government, directly impacting the environmental protection sector. The Group has consistently adapted to these environmental changes and overcome new challenges to achieve its own development and progress. It remains committed to its strategic goal of becoming a leading “Chinese Biomass Gas Operation Service Provider”. The Group places significant emphasis on innovation, service upgrades, and business model innovation and collaborates with governments, enterprises, and research institutions to seek solutions. As part of its efforts, the Group has reshaped its corporate business, realigned its development direction, and pursued asset optimisation in sewage projects. This includes disposing of non-core assets and restructuring existing assets, such as the disposal of interests in subsidiaries related to water supply and sewage treatment businesses in May 2023. Guided by market demands and leveraging its platform advantages, the Group is dedicated to cultivating the environmentally-friendly new energy sector.

As disclosed in the annual report of the Company for FY2023 and the announcement of the Company dated 30 May 2023, the Group put forward its strategic positioning and plan as a biomass and fuel gas service provider in the PRC and will focus on the development of five major business segments, namely (i) the biogas resource utilisation, (ii) the comprehensive livestock and poultry manure resource utilisation, (iii) the high concentration organic wastewater deep treatment, (iv) the operation, ancillary engineering services, closure and rectification of landfill sites and (v) the ecological restoration and resources development. As such, the Board believes that the Disposal would allow the Group to realise the investment in the Disposal Group, to materialise its plan and focus on its core segments by better allocating the Group’s resources for the development of its core businesses.

Further, the net proceeds from the Disposal will make a positive contribution to the cashflow of the Group and it is intended that part of the net proceeds will be used for the repayment of the borrowings the Company and the interests accrued thereon. Thus, the Board considers that the Disposal shall enable the Company to lower its financing costs and improve the liquidity and overall financial position of the Group.

Having regard to the aforementioned, the Directors (including the independent non-executive Directors) believe that the terms of the Disposal (including the Consideration) are on normal commercial terms, fair and reasonable, and the Disposal is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

LETTER FROM THE BOARD

As the Purchaser is a substantial shareholder of the Disposal Company as at the Latest Practicable Date, the Purchaser is thus a connected person of the Company at subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. In light of the fact that the Disposal has been approved by the Board and the independent non-executive Directors have confirmed that the terms of the Equity Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the entering into of the Equity Transfer Agreement will constitute a connected transaction which is subject to reporting and announcement requirements but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

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

EGM

The EGM will be convened and held at Office H, 8/F., Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong on Monday, 9 September 2024 at 9:30 a.m. for the Shareholders to consider and, if thought fit, to approve the Equity Transfer Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

The voting in respect of the Disposal at the EGM will be conducted by way of poll. To the best of the information, knowledge and belief of the Directors having made all such reasonable enquiries, no Shareholder is required to abstain from voting at the EGM.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as practicable but in any event not later than 48 hours (i.e. no later than Saturday, 7 September 2024 at 9:30 a.m.) before the time appointed for holding of the EGM or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon its ultimate beneficial owners and their respective associates; and (ii) no obligation or entitlement of its ultimate beneficial owners and their respective associates as at the Latest Practicable Date, whereby it or he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its or his Shares to a third party, either generally or on a case-by-case basis.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Completion is subject to the Approval Procedures, Handover Procedures and Registration of Equity Transfer set out in the Equity Transfer Agreement having been completed and therefore the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Yours faithfully,
For and on behalf of the Board
China Water Industry Group Limited
Mr. Zhu Yongjun
Chairman and Executive Director

I. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2021, 2022 and 2023 are disclosed in the annual reports of the Company for the years ended 31 December 2021, 2022 and 2023, respectively, and there was no qualified audit opinion expressed on the consolidated financial statements of the Group for the three years ended 31 December 2021, 2022 and 2023.

The said annual reports of the Group are published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.chinawatergroup.com>):

- annual report of the Company for the year ended 31 December 2021 published on 27 April 2022 (pages 143 to 284) (hyperlinks: <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042701952.pdf>);
- annual report of the Company for the year ended 31 December 2022 published on 27 April 2023 (pages 144 to 300) (hyperlinks: <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042703635.pdf>); and
- annual report of the Company for the year ended 31 December 2023 published on 26 April 2024 (pages 134 to 292) (hyperlinks: <https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0426/2024042601136.pdf>).

II. INDEBTEDNESS STATEMENT

At the close of business on 30 June 2024, being the latest practicable date for the purpose of ascertaining this indebtedness statement prior to the date of this circular, the Group had total borrowings of approximately HK\$895,772,000, which comprised the following:

	As at 30 June 2024 HK\$'000
Other borrowings:	
Government loans (<i>Note a-i</i>)	2,141
Loans from unrelated parties (<i>Note a-ii</i>)	105,326
Loans from related parties (<i>Note a-iii</i>)	54,612
Fixed coupon bonds (<i>Note a-iv</i>)	18,223
Bank borrowings (<i>Note b</i>)	409,582
Lease Liabilities (<i>Note c</i>)	305,888
	<u>895,772</u>

Note a-i:

The government loans of approximately HK\$996,000 and HK\$1,145,000 are fixed-rate borrowing and interest-free borrowings respectively. The fixed rate borrowings carried interest rate at 5.2% per annum. These loans are unsecured and unguaranteed.

Note a-ii:

The loans from unrelated parties of approximately HK\$105,326,000 bear interest rates ranging from 0% to 18% per annum, among which the loans in the aggregate principal amount of approximately HK\$104,230,000 are unsecured and the loans in the aggregate principal amount of approximately HK\$1,096,000 are secured by group's certain right of use assets with net carrying value of approximately HK\$2,542,000 and corporate guarantee by the Company.

Note a-iii:

The loans from related parties of approximately HK\$54,612,000 bear interest rates ranging from 12% to 15% per annum, among which the loans in the aggregate principal amount of approximately HK\$4,612,000 are unsecured and the loans in the aggregate principal amount of approximately HK\$50,000,000 are secured by the shares of two subsidiaries and corporate guarantee by the Company.

Note a-iv:

On 18 January 2018, the Company entered into the placing agreement with placing agent, for the purpose of arranging independent places to subscribe for the bonds up to aggregate principal amount of HK\$100,000,000 within the placing period. On 17 January 2019, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days. The bonds in the aggregate principal amount of HK\$20,000,000 were issued during the placing period. The bonds will mature in 7.5 years from the date of issuance. The interest rate is 6% per annum. As at 30 Jun 2024, the carrying value of the bonds are approximately of HK\$18,223,000 which are unsecured and unguaranteed.

Note b:

The bank borrowings of approximately HK\$409,582,000 bear interest rates ranging from 3.45% to 7.84% per annum and are secured and/or guaranteed by the following:

Securities:

- (i) Group's certain property, plant and equipment with net carrying value of approximately HK\$190,468,000;
- (ii) Group's certain right-of-use assets with net carrying value of approximately HK\$29,236,000;
- (iii) Group's certain investment properties with net carrying value of approximately HK\$191,748,000;
- (iv) equity interests of certain subsidiaries of the Group (ranging from 90% to 100%); and
- (v) contractual rights to receive the revenue generated by certain subsidiaries of the Group.

Guarantees:

- (i) corporate guarantees by the Company, certain subsidiaries of the Group and non-controlling shareholders of a subsidiary of the Group; and
- (ii) personal guarantees from an executive Director and management personnel of certain subsidiaries of the Group.

Note c:

The lease liabilities of approximately HK\$287,377,000 bear interest rates ranging from 5.04% to 8.64% per annum and are secured and/or guaranteed by the following:

Securities:

- (i) Group's certain right-of-use assets with net carrying value of approximately HK\$227,404,000;
- (ii) contractual rights to receive the revenue generated by certain subsidiaries of the Group; and
- (iii) equity interests of certain subsidiaries of the Group (ranging from 49% to 100%).

Guarantees:

- (i) corporate guarantees by the Company and certain subsidiaries of the Group; and
- (ii) personal guarantee from an executive Director.

The remaining balance of lease liabilities of approximately HK\$18,511,000 represents the liabilities for leases of office premises located in Hong Kong and the PRC and are recognised as right-of-use assets and lease liabilities for these leases.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as of 30 June 2024, being the latest practicable date for determining indebtedness, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments or guarantees or other material contingent liabilities, nor any authorised or otherwise created but unissued debt securities.

III. WORKING CAPITAL

The Directors confirm that, after due and careful enquiry and taking into consideration the financial resources available to the Group, including banking facilities and other internal resources, the Group has sufficient working capital for at least the next 12 months commencing from the date of this circular.

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

IV. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there was no material adverse change in the financial or trading position 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.

V. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy in the PRC; and (iii) property investment and development.

For FY2023, the Group's revenue decreased by HK\$485.35 million, dropping from HK\$1,219.14 million for FY2022 to HK\$733.79 million in FY2023. Additionally, the net loss attributable to owners of the Company increased by HK\$154.25 million, rising from HK\$89.20 million in FY2022 to HK\$243.45 million in FY2023. The increase in net loss was mainly attributable to, among others, net impact of the following factors: (i) a decline in revenue and gross profit from the renewable energy business due to a substantial reduction in on-grid electricity volume caused by the development of local incineration projects and the closure of certain landfill sites, resulting in fewer garbage deliveries to the landfills; (ii) a decrease in revenue and gross profit from the water supply related installation, construction and infrastructure business due to fewer engineering and construction contracts awarded; (iii) the absence of contribution from the sales of properties in FY2023 as compared to FY2022; (iv) the absence of contribution from the completion of disposal of Linyi Fenghuang Water Industry Co., Ltd in the second half of FY2022; (v) a decrease in income from the sales of carbon-credit assets; and (vi) a fair value loss on investment property due to the continued downturn in the real estate market in China. However, these effects were partially offset by (i) a decrease in the provision of expected credit loss on trade and other receivables; (ii) a decrease in finance costs resulting from a lower average borrowing interest rate; and (iii) a decrease in income tax due to the decline in taxable profit generated in FY2023.

Despite acute challenges of global economic development in FY2023, the Group made steady progress, actively seizing new opportunities for industry development and pursuing stable transformation. In response to the ever-changing market environment, the Group will continue to position itself as a "biomass gas operator in China" and focus on resource utilisation of biomass gas (such as landfill gas, agricultural and industrial biogas), integrated water treatment, overseas business development, landfill closure ecological restoration and resources reuse, landfill maintenance and engineering support services, and constantly explore and expand new business models and market potential.

In 2024, the Group will intensify efforts in expanding Hong Kong's environmental protection segment and overseas environmental protection business, aiming for innovative iteration, high-speed, and high-quality development. With a technology-driven, market-oriented, customer-centric, and efficiency-oriented approach, the Group will actively promote sustainable development. The Disposal forms part of the Group's strategic adjustment to divest from traditional municipal water services, with a view to focusing on its core business areas and market positioning. Indeed, the Group has transformed from a traditional water service company to a technology-based water treatment company, enhancing sewage treatment efficiency and significantly reducing operating costs. The Group has also maintained and upgraded key corporate qualifications in order to secure major construction projects in the PRC.

The property investment and development business of the Group remains to be an important business segment of the Group in 2024. In the first half of the year, the segment progressed in an orderly manner with notable improvement. In particular, the project in Nanjing Space Big Data Industrial Park has successfully attracted significant number of enterprises to settle in. The Group will closely monitor the market needs and adjust its investment strategy as and when necessary.

The following is the text of a report received from AVISTA Valuation Advisory Limited an independent valuer, in connection with the valuation as at 30 June 2024 of the fair value of 51% equity interest of the Disposal Company, for inclusion in this circular.



23 August 2024

The Board of Directors
China Water Industry Group Limited
Office H, 8/F, Kingston International Centre
19 Wang Chiu Road, Kowloon Bay, Hong Kong

Dear Sirs/Madams,

Re: Valuation of 51% Equity Interests in Yichun Water Industry Group Co., Limited

In accordance with your instructions, AVISTA Valuation Advisory Limited (“**AVISTA**” or “**we**”) has conducted valuation in connection with the fair value of the 51% equity interests in Yichun Water Industry Group Co., Limited (“**Yichun Water**”, the “**Target**” or the “**Disposal Company**”) for China Water Industry Group Limited (the “**Company**”, “**China Water**”, or “**you**”) as of 30 June 2024 (the “**Valuation Date**”). We understand that the Company, together with its subsidiaries (the “**Group**”), entered into an equity transfer agreement (the “**Agreement**”) with Yichun Municipal Development Co., Ltd. (the “**Purchaser**”) to sell 51% equity interests of the Target to the Purchaser (the “**Proposed Disposal**”).

It is our understanding that this appraisal is strictly addressed to the directors of the Company (the “**Directors**”) and used for the Proposed Disposal solely for your internal reference purpose. This report (the “**Report**”) does not constitute an opinion on the commercial merits and structure of the Proposed Disposal. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realization and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with the Report. We assumed that the financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions and explains the analysis methodology adopted in this appraisal process to calculate the value.

BASIS OF ANALYSIS

We have appraised the fair value of the 51% equity interests of the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

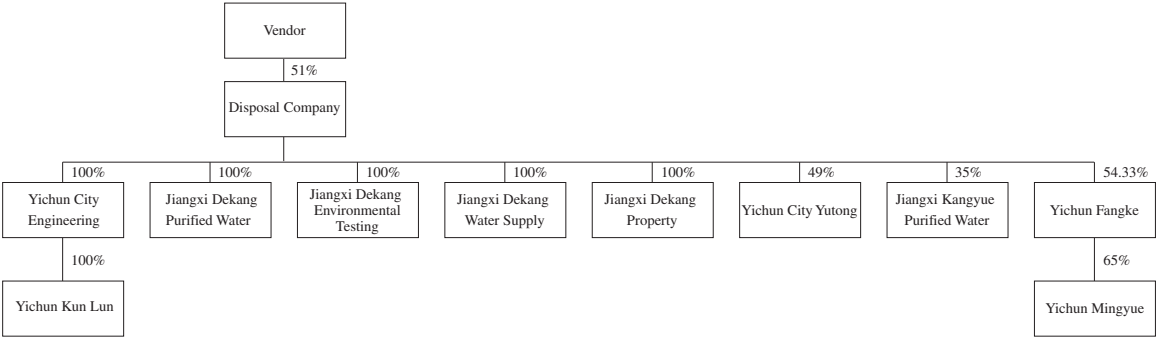
Our valuation is prepared in compliance with the requirements of International Valuation Standards published by The International Valuation Standards Council. This standard contains guideline on the basis and valuation approaches used in business valuation.

TRANSACTION BACKGROUND

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy; and (iii) property investment and development in the People’s Republic of China (the “**PRC**”).

Yichun Water is a company established in the PRC with limited liability. As of the Valuation Date, Yichun Water is owned as to 51% by Onfar International Limited (“**Onfar International**” or the “**Vendor**”, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company) and 49% by the Purchaser. It is principally engaged in the provision of water supply and installation of water supply facilities. In addition, Yichun Water holds various Investment Properties in the PRC (the “**Investment Properties**”) as of the Valuation Date. Please refer to Section “*VALUATION OF THE WATER SUPPLY AND CONSTRUCTION SEGMENT*” for details of the Investment Properties.

The following diagram illustrates the simplified shareholding structure of the Target and its subsidiaries and associate companies as of the Valuation Date.



(i) Water Supply and Construction Segment

The water supply and construction segment (the “**Water Supply and Construction Segment**”) mainly engages in the provision of water supply and installation of water supply facilities in the PRC.

This segment consists of seven entities, in which (i) Yichun Water is principally engaged in the provision of water supply and installation of water supply facilities; (ii) Yichun City Water Supply Engineering Limited (“**Yichun City Engineering**”) is principally engaged in the installation of water supply facilities; (iii) Yichun Kun Lun Information Technology Company Limited (“**Yichun Kun Lun**”) is principally engaged in information services; (iv) Jiangxi Dekang Purified Water Company Limited (“**Jiangxi Dekang Purified Water**”) is principally engaged in the exploitation, production and sale of purified and drinking system; (v) Jiangxi Dekang Environmental Testing and Development Limited (“**Jiangxi Dekang Environmental Testing**”) is principally engaged in environmental testing and product testing; (vi) Jiangxi Dekang Water Supply Company Limited (“**Jiangxi Dekang Water Supply**”) is principally engaged in construction and management of secondary water supply facilities; and (vii) Jiangxi Kangyue Purified Water Limited (“**Jiangxi Kangyue Purified Water**”) is principally engaged in production and supply of water, sales of drinking water equipment.

(ii) Sewage Treatment Segment

The sewage treatment segment (the “**Sewage Treatment Segment**”) mainly engages in the provision of sewage treatment services in the PRC.

This segment consists of Yichun Fangke Sewage Treatment Company Limited (“**Yichun Fangke**”), which is principally engaged in the sewage treatment. As of the Valuation Date, Yichun Fangke holds 65% equity interests in a joint venture, namely Yichun Mingyue Mountain Fangke Sewage Treatment Co. Limited (“**Yichun Mingyue Mountain**”), which is also principally engaged in the sewage treatment.

(iii) Other Business Segment

Based on our understanding from Management, Jiangxi Dekang Property Management Limited (“**Jiangxi Dekang Property**”) and Yichun City Yutong Water Production Company Limited (“**Yichun City Yutong**”) are dormant and with no assets on book as of the Valuation Date.

We understand that the Company intends to dispose 51% equity interests of the Target as previously defined as the Proposed Disposal.

The Proposed Disposal constitutes a major and connected transaction for the Company and is therefore subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

As such, the Company engaged us as an independent valuer to assess the fair value of the 51% equity interests of the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;
- Carried out research in the sectors concerned and collected relevant market data from reliable sources for analysis;
- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;
- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the 51% equity interests of the Target;
- Conducted market research on investment properties located near the Investment Properties;
- Performed data analysis on the property market in which the Investment Properties are located;
- Reviewed the related documents related to the Investment Properties provided by the Management; and
- Compiled the Report on the valuation, which outlines our findings, valuation methodologies and assumptions and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and their authorized representatives.

ECONOMIC OVERVIEW

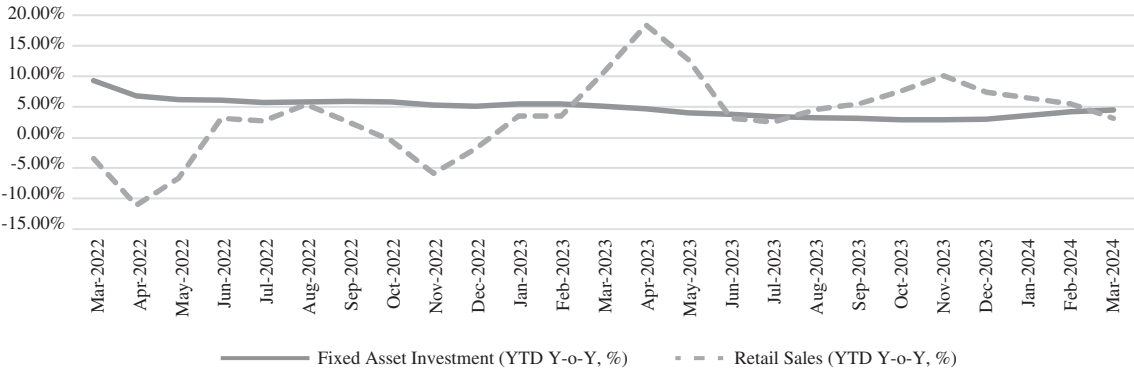
Overview of the PRC’s Economy

The PRC’s economy demonstrated a faster-than-expected growth in 2024Q1. The National Bureau of Statistics (“NBS”) reported that the gross domestic product (“GDP”) in the PRC grew by 5.3% year-on-year (“y-o-y”) in 2024Q1, surpassing the market prediction of 4.6%. Domestic consumption has continued to be the main driver of the growth. Total retail sales rose by 4.7% y-o-y in this quarter, contributing 3.9% to the GDP growth. Overall, domestic consumption accounted for 73.7% of the total economic activity in 2024Q1 in the PRC.

The resurgence of the global manufacturing industry, particularly within high-tech industries, has led to increased demand for Chinese products. This recovery boosted the PRC’s industrial production by 6.0% y-o-y in 2024Q1. In addition, trade performance also witnessed a notable improvement. Total foreign trade volume for 2024Q1 reached RMB10.2 trillion, reflecting a 5.0% y-o-y increase. This was a remarkable improvement from the 1.6% y-o-y growth observed in the previous quarter, and the highest pace in the past six quarters. Among the trade volume, exports grew by 4.9% to RMB5.7 trillion, while imports grew by 5.0% to RMB4.4 trillion.

In terms of investment, the growth of fixed asset investment has accelerated from 3.0% in FY2023 to 4.5% in 2024Q1. However, investment in property development continued to decline, falling by 9.5% y-o-y, due to the decreasing confidence in the real estate market. To counteract this decline and bolster the real estate sector, the Chinese government has introduced several supportive measures, such as reducing interest rates on existing first-home loans and extending tax incentives.

Y-o-Y Growth in Year-to-Date (“YTD”) Fixed Asset Investment and Monthly Retail Sales



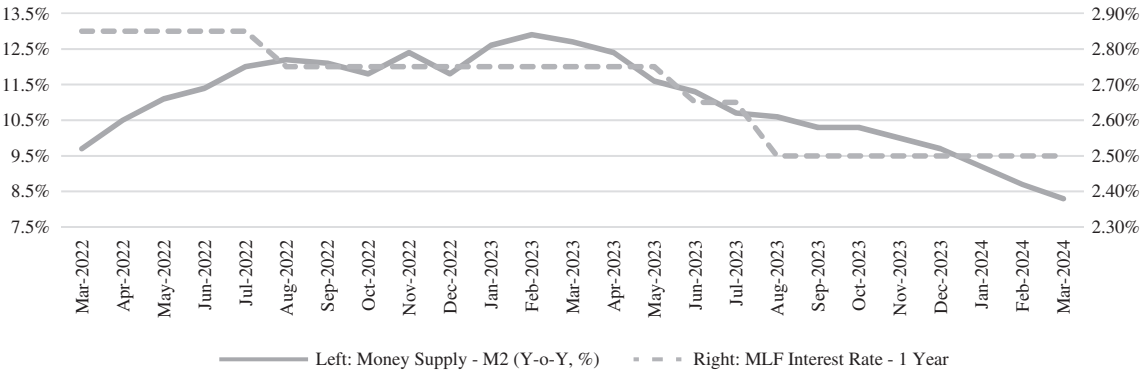
(Source: NBS)

The PRC’s price level remained stable. According to the NBS, the consumer price index (“CPI”) increased slightly by 0.1% y-o-y in March 2024. Food prices decreased by 2.7% in March due to sufficient market supply after the Spring Festival. Additionally, non-food prices experienced a modest increase of 0.7% in March. On the other hand, the producer price index (“PPI”) declined by 2.8% y-o-y in March, influenced by lower material costs.

In 2024Q1, financing costs in the PRC remained at a steady level. The People’s Bank of China (the “PBoC”) executed RMB387.0 billion in medium-term lending facilities (“MLF”) in March, maintaining an interest rate of 2.5%. Furthermore, the money supply (“M2”) reached RMB304.8 trillion in March, reflecting an 8.3% y-o-y growth rate. The growth in M2, alongside the execution of the MLF, ensured ample liquidity within the banking system and helped in lowering borrowing costs.

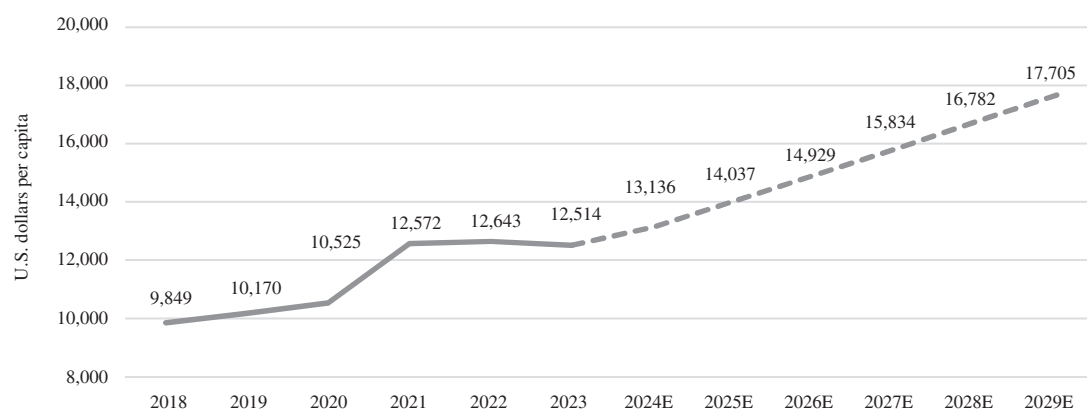
Looking ahead, KPMG anticipated that domestic consumption will continue to be the primary driver of economic growth in the PRC, driven by the increasing household income. Moreover, the supportive policies in fixed asset investment will also facilitate the economic stability. With reference to the International Monetary Fund (“IMF”), The PRC’s GDP per capita is projected to rise from USD12,514 in 2023 to USD17,705 by 2029, with a compound annual growth rate (“CAGR”) of 6.0%.

Y-o-Y Growth in M2 and 1-Year MLF Interest Rate in the PRC



(Source: NBS, the PBoC)

GDP per capita of the PRC



(Source: IMF)

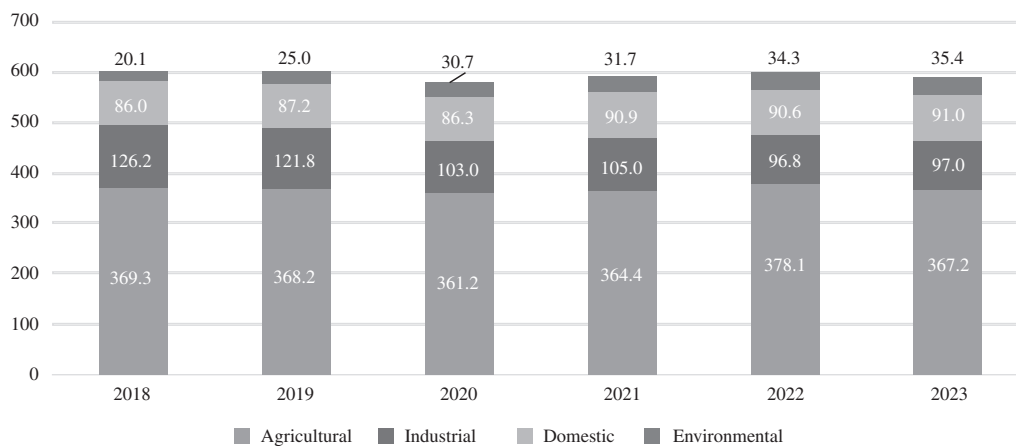
INDUSTRY OVERVIEW

Overview of the Water Supply and Construction Industry in the PRC

The PRC has sustained a stable water supply in recent years due to the implementation of significant water conservancy and construction projects by the PRC government. Agricultural, industrial, domestic and environmental are the major components of water consumption in the PRC. According to the NBS and the Ministry of Water Resources of the PRC, total water consumption has remained stable over the recent years, ranging from 581.3 to 602.1 billion cubic meters between 2018 and 2023, with approximately 80% of the water consumption was attributed to the agricultural and industrial sectors. In 2023, agricultural and industrial activities accounted for approximately 62.2% and 16.4% out of the 590.7 billion cubic meters consumed, respectively.

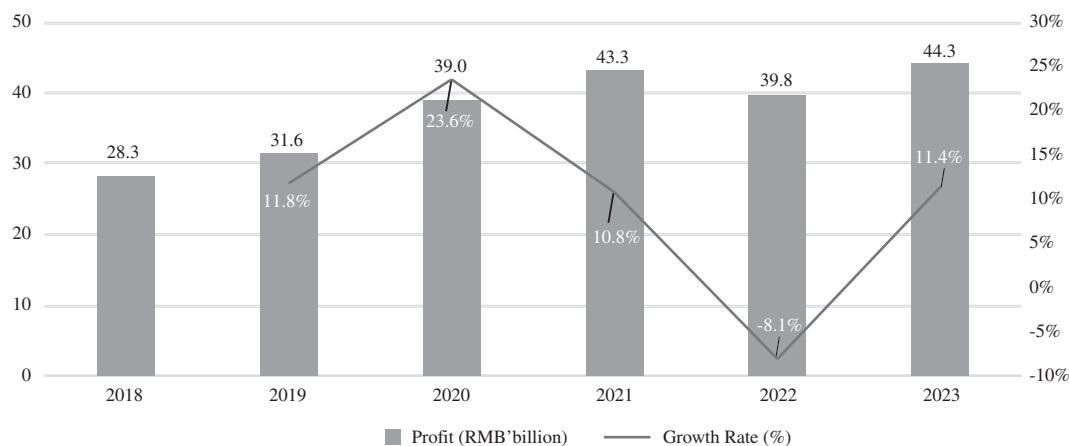
Driven by population growth, economic development, and improved living standards in the PRC, the government is committed to ensuring the stable growth of the industry through investments in water conservancy and construction projects. According to the Ministry of Water Resources, 9,683 new water conservancy and construction projects were initiated nationwide in 2024Q1, reflecting a y-o-y increase of 33.8%. The investment in these new projects rose by 47.6% y-o-y, reaching RMB473.3 billion in 2024Q1. In addition, investments in water conservancy and construction projects of RMB193.3 billion was completed in 2024Q1 and recorded as the highest historical amount for the same period.

Numerous enterprises can now operate more independently with private and foreign capital due to the commercialization and project investments in the water supply industry promoted by the PRC government. The industry has experienced consistent profit growth in recent years. According to the NBS, the total annual profits for water supply companies rose by 11.4% from RMB39.8 billion in 2022 to RMB44.3 billion in 2023. As of June 2024, the YTD total profits for water supply companies reached RMB22.2 billion, marking a 16.3% increase compared to RMB19.1 billion in the same period of 2023.

Total Water Consumption by Usage in the PRC (in billion m³)

(Source: NBS and the Ministry of Water Resources)

Total Profit of Water Supply Companies in the PRC



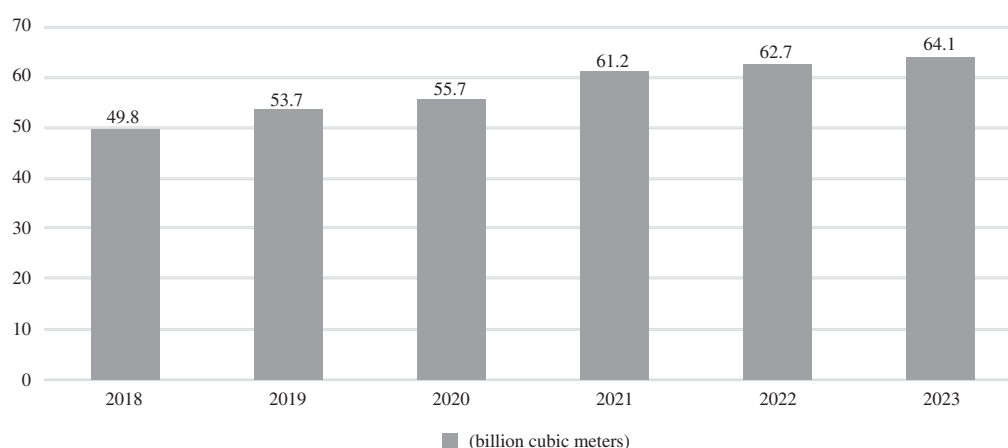
(Source: NBS)

Overview of the Sewage Treatment Industry in the PRC

The swift economic growth in the PRC, along with the rapid urbanization and industrialization, has resulted in higher water consumption and, consequently, an increase in sewage discharge. The Ministry of Housing and Urban-Rural Development of the PRC (the “**Ministry of Housing and Urban-Rural Development**”) reported that the total amount of national urban sewage discharged rose from 52.1 billion cubic meters in 2018 to 63.9 billion cubic meters in 2022, reflecting a CAGR of 5.2%. To accommodate this rising demand, the capacity of wastewater treatment plants has been steadily expanding. According to the Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment of the PRC, the total annual treatment capacity of national urban wastewater treatment plants expanded from 49.8 billion cubic meters in 2018 to 64.1 billion cubic meters in 2023, reflecting a CAGR of 5.2%.

In the future, endorsements from the government will be essential for developments in the sewage treatment market. In June 2021, the National Development and Reform Commission, in partnership with the Ministry of Housing and Urban-Rural Development, released the “14th Five-Year Plan for Urban Wastewater Treatment and Resource Utilization Development.” This plan primarily aims to enhance urban sewage collection and treatment capabilities and devote resources to improve sewage treatment facilities and infrastructure. One of its key targets is to achieve a national urban domestic sewage collection rate of 70% or higher by 2025. Consequently, this initiative is expected to contribute to the further growth of the sewage treatment industry, underscoring the need for more sewage treatment plants and an expanding aggregate sewage treatment capacity.

Annual Treatment Capacity of Urban Wastewater
Treatment Plants in the PRC (2018–2023)



(Source: Ministry of Housing and Urban-Rural Development and the Ministry of Ecology and Environment)

LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only and, where relevant, for a basis for disclosure purpose under the requirement of the Listing Rules. We will not be liable for any unauthorized use of the Report. Accordingly, the Report may not be used nor relied upon in any other connection by, and is not intended to confer any benefit on, any person (including without limitation to the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Disposal. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Disposal. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Disposal and such remain the sole responsibility of the Directors and the management of the Company (the “**Management**”).

We have not been provided with all copies of titleship documents relating to the property interests, but we have made relevant inquiries and have confirmed with the Company regarding the validity of the information. For the titleship documents received, we have not examined the original documents and assumed that the copies of the documents obtained are consistent with their originals.

All documents have been used for reference only and all dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made to verify their correctness.

We have not seen the original planning consents and have assumed that the Investment Properties have been erected, being occupied and used in accordance with such consents and that there are no outstanding statutory notices.

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, especially for the historical financial information of the Target and the financial projections of (i) the Water Supply and Construction Segment and (ii) the Sewage Treatment Segment (the “**Financial Projections**”) as of 30 June 2024 provided by the Management, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

VALUATION ASSUMPTIONS OF EQUITY VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- The Target will be operated with the corporate structure and operation model as projected by the Management;
- The nature of business and financial and operating results of the Target;
- The economic outlook in general and the specific economic and competitive elements affecting the Target’s businesses, its industry and its market;
- The nature and prospects of the industries in which Target is operating;
- The selected comparable companies are engaging in business operations similar to the Target;
- The market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of business;
- The stage of development of the Target’s operation; and

- The business risks of the Target.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- There will be no major changes in the current taxation law in the country that the Target is operating, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The Financial Projections have been prepared on a reasonable basis, reflecting estimates (i.e. assumptions and parameters adopted in the Financial Projections) which have been arrived at after due and careful consideration by the Management;
- The availability of finance will not be a constraint on the forecast growth of the Target's operation in accordance with the Financial Projections;
- The Target will retain and have competent management, key personnel, and technical staff to support its ongoing operation;
- Industry trends and market conditions for related industries will not deviate significantly from economic forecasts including but not limit to market relative factors adopted in the discount rates; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

GENERAL VALUATION APPROACH

There are three generally accepted approaches to appraise the fair value of the equity interest of the Target, namely Income Approach, Asset Based Approach and Market Approach. All three of them have been considered regarding the valuation of the Target:

Income Approach The Income Approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for Income Approach is the discounted cash flow (“**DCF**”) method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Asset Based Approach The Asset Based Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Market Approach The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

Given that the Target has various business segments, the equity value of the Target is derived based the sum of values of different business segments estimated with applicable valuation approaches.

VALUATION OF THE WATER SUPPLY AND CONSTRUCTION SEGMENT

In the appraisal of the value of the Water Supply and Construction Segment, we applied Income Approach due to the following reasons:

- Asset Based Approach is not appropriate in appraisal as it assumed the assets and liabilities of the segment are separable and can be sold separately. This methodology is more appropriate for the industry that their assets can be sold separately, like property development and financial institution. Thus, Cost Approach is not adopted in the valuation of the Water Supply and Construction Segment.
- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Due to the uniqueness of location and the limited economic lives of the Water Supply and Construction Segment, we have not identified sufficient recent market transactions comparable to this segment. Valuation based on public listed companies which operate on going concern basis in general is also considered inappropriate.
- Under Income Approach, the value is dependent on the present value of future economic benefits such as cost savings, periodic income, or sale proceeds. This method factors in the specific considerations surrounding the Proposed Disposal, such as the limited economic lives, and produces more relevant valuation results.

Given Market Approach and Asset Based Approach are not appropriate for valuation of the Water Supply and Construction Segment, and the Management has provided us with the Projections, the value derived from the Income Approach is considered appropriate for the valuation of this segment.

DCF method of Income Approach was adopted to appraise the fair value of the Water Supply and Construction Segment. The value depends on the present value of future economic benefits to be derived from ownership of the enterprise. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

In applying the DCF, we have adopted the free cash flows to equity (“FCFE”) to assess the valuation of the segment. FCFE is the common approach adopted in valuing infrastructure assets given the varying capital structure over the life of the assets as projects are initially highly geared to fund construction, and as investors in infrastructure assets seek to maximize distributions over time through leverage.

Major Assumptions of Equity Value Analysis

To determine the future cash flow derived from the Water Supply and Construction Segment, we relied on the Projections provided by the Management. We have performed high-level analysis and review on the Projections and discussed with the Management about the reasonableness of the Projections. Brief descriptions of major assumptions of the Projections have been shown below:

(1) Projection Period

According to the concessionary operation agreement 《城市供水特許經營合同》 entered by 宜春市城市管理局 and Yichun Water, the projection period was determined based on the contract period of the operating concession right, i.e., 30 years since the commencement date on 21 November 2004. Hence, the projection period covers the entire operation period from the Valuation Date to the end of the exclusive operating concession right, i.e., 21 November 2034.

(2) Revenue

Revenue of the Water Supply and Construction Segment mainly comprises of (i) water supply services; and (ii) water supply-related construction and installation services.

Revenue from water supply services

Revenue from water supply services is derived by multiplying (a) volume of water supply per year with (b) price per ton of water.

(a) Volume of Water Supply

The volume of water supply is mainly dependent on the demand of local users in Yichun City. The current daily volume of water supply is approximately 227,100 tons as of the Valuation Date, comprising supply from (i) water facilities owned by the Target (the “**Self-Owned Facilities**”) of approximately 102,500 tons per day; and (ii) external water facilities (the “**External Facilities**”, together with the Self-Owned Facilities, the “**Water Supply Facilities**”) of approximately 124,600 tons per day. Due to seasonality effect, with the consideration over future economic prospects of this business segment, the Management expects that the daily water supply in 2024H2 will revert to the historical level in FY2023, with 2% annual growth in the volume of daily water supply from the Water Supply Facilities per year until reaching their respective daily capacities, with a total of approximately 290,000 tons per day.

(b) Water Price

As of the Valuation Date, the YTD average price per ton of water is around RMB1.58. Based on Management's experience, they expect a price increment of 10% for every 5 years starting from FY2025 on the water price throughout the projection period to reflect future potential adjustments in water price.

Revenue from Water Supply-Related Construction and Installation Services

In exchange for the installation services of water supply facilities performed, including but not limited to water diversion channels, water meters, water distribution networks, the Target receives service fees from contract parties. With the consideration over future economic prospects of the PRC's real estate market, the Management expects that the Construction and Installation Revenue in 2024H2 will revert to the historical level in FY2023, with an estimated 2% annual growth rate since 2024H2 to reflect the expected long-term annual inflation growth.

(3) Cost of Sales

Cost of Water Supply Services

The cost of sales of water supply services mainly comprises water purchase costs, electricity expenses, water resources expenses, depreciation and amortization expenses, salary and other staff benefits expenses, repair and maintenance expenses and other expenses.

Water purchase costs are estimated based on the volume of water purchased from the External Facilities with their respective unit purchase costs. According to the water purchase agreements and as advised by the Management, the Target is obliged to purchase 100,000 tons of water per day from 袁河水廠 and 30,000 tons of water per day from 三陽水廠, with purchase price of RMB0.7489 per ton of water and RMB1 per ton of water respectively. The Management expects a price increment of 10% for every 5 years starting from FY2025, consistent with the water price adjustments.

The Management estimates a 2% annual inflationary growth for (i) the unit price per ton of water for electricity expenses, (ii) the unit price per ton of water for water resources expenses, (iii) salary and other staff benefits expenses; and (iv) repair and maintenance expenses. Depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets. Other expenses are estimated based on the percentage of water supply services revenue with reference to the historical level.

Cost of Water Supply-Related Construction and Installation Services

The cost of water supply-related construction and installation business is expected to be approximately 60% of related revenue with reference to the historical level.

(4) Other Income

As advised by the Management, other income mainly comprises handling charges from government and pipe management service income.

(5) Operating Expenses

Operating expenses of the Water Supply and Construction Segment mainly consist of salary expenses, depreciation and amortization expenses, repairment expenses, labour protection fees and other administration expenses. Operating expenses as a percentage of revenue are forecasted to range from 25.8% to 28.5% throughout the projection period.

Salary expenses and labour protection fees are estimated based on historical operating expenses with 2% annual inflationary growth during the forecast period. Depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets. Other operating expenses are estimated based on the percentage of total revenue with reference to the historical level.

(6) EBITDA Margin

The forecast EBITDA margin of the Water Supply and Construction Segment varies between 16.9% to 23.9% over the forecast period. We noted that the range of forecast EBITDA margin is within the range of historical financials of the comparable companies.

(7) Tax Rate

According to the Management, the Water Supply and Construction Segment is subject to a tax rate of 25% per annum, which is the statutory corporate income tax rate in the PRC.

(8) Capital Expenditure (“CAPEX”)

As advised by the Management, the Target requires certain maintenance expenditure for property, plant and equipment and underlying water supply facilities. Except for 2024, the projected annual maintenance CAPEX ranges from approximately RMB2.6 million to RMB5.0 million throughout the projection period.

(9) Working Capital

Working capital of the Water Supply and Construction Segment mainly includes trade receivable, deposits and prepayments, inventories, contract assets, receipt in advance, trade payable, payroll payable, income tax payable and contract liabilities.

(10) Residual Value

According to the concession service agreement, the Target is obliged to transfer all the assets to the People's Government of Yichun at fair value price upon cessation of the exclusive operating concession right. The residual value of asset is the amount it is worth at the end of the contract period of the operating concession right. Management has estimated a residual value of RMB159.3 million at the end of the forecast period.

Discount Rate

The applicable discount rate is the likely rate of return an investor would require. The applicable discount rate assessed for the purpose of valuing the Water Supply and Construction Segment has been based on cost of equity estimated using the Capital Asset Pricing Model ("CAPM"). The CAPM considers only systematic risk of a company which is captured by beta. The modified CAPM further incorporates non-systematic risks which are specific to a company. Non-systematic risks of the Target, such as relatively small size and risk of not achieving the expected growth rate, were considered by adding other risk premiums including size premium and company-specific risk premium.

The cost of equity under the modified CAPM was computed using the following formula:

$$\mathbf{Re = Rf + \beta * MRP + RPS + RPU}$$

Where:

Re = Cost of equity

Rf = Risk-free rate

β = Beta coefficient

MRP = Market risk premium

RPS = Size premium

RPU = Company-specific risk premium

In computation of the beta coefficient, we have observed the share price movements relative to the respective equity market indices of listed comparable companies.

The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The comparable public companies are selected with reference to the following selection criteria:

- The principal business of the companies is provision of water supply and related services and/or construction and installation services;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed on the Stock Exchange of Hong Kong (“SEHK”) with more than 3 years’ listing period; and
- The financial information of the companies is available to the public.

During our research process, as obtained on the best effort basis, we have identified an exhaustive list of five comparable companies that engaged in similar business with the Target. As mentioned above, since no two companies are ever exactly alike, the differences should not overshadow the similarities of the business nature of the companies. We consider these companies are comparable to the Target.

Based on the above selection criteria, we have identified 5 comparable companies listed as follows:

No.	Stock Ticker	Company Name	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
1	SEHK:855	China Water Affairs Group Limited	China Water Affairs Group Limited, an investment holding company, engages in the water supply, environmental protection, and property businesses in the People's Republic of China. It operates through City Water Supply, Pipeline Direct Drinking Water Supply, Environmental Protection, Main Contractor Construction, and Property Development and Investment segments. The City Water Supply segment is involved in the provision of water supply operation and construction, installation and maintenance, and other services. The Pipeline Direct Drinking Water Supply segment is involved in the provision of pipeline direct drinking water supply operations and construction, installation and maintenance services, and other services. The Environmental Protection segment engages in sewage treatment, drainage operation, construction services, solid and hazardous waste, environmental sanitation, and water environment management businesses. The Main Contractor Construction segment is involved in the provision of municipal public construction services. The Property Development and Investment segment develops, sells, and invests in properties. It is also involved in the development and infrastructure of sightseeing area; provision of water environmental renovation infrastructure; and investment, construction, and operation of water conservation and hydropower related projects, as well as energy conservation and environmental protection and hotel operations.	Relevant to the business of the Target: City Water Supply Business (64.4%) Pipeline Direct Drinking Water Supply Business (13.4%)

No.	Stock Ticker	Company Name	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
2	SEHK:1542	Taizhou Water Group Co., Ltd.	Taizhou Water Group Co., Ltd., together with its subsidiaries, engages in supplying municipal, tap, and raw water to end-users in Mainland China. It is involved in installation of water pipelines.	Relevant to the business of the Target: Sale of Water and Installation Services (100.0%)
3	SEHK:270	Guangdong Investment Limited	Guangdong Investment Limited, an investment holding company, engages in water resources, property investment and development, department store operation, hotel ownership, energy project operation and management, and road and bridge operation businesses. The company's Water Resources segment provides water distribution, sewage treatment, water pipeline installation and consultancy services, constructs water supply and sewage treatment infrastructure, and sells machineries in Mainland China and Hong Kong. Its Property Investment and Development segment invests in and rents various properties in Hong Kong and Mainland China; and develops and sells properties in Mainland China. This segment provides property management services for various commercial properties. The company's Department Stores Operation segment operates department stores in Mainland China. Its Electric Power Generation segment operates coal-fired power plants that supply electricity and steam in the Guangdong province, Mainland China. The company's Hotel Operation and Management segment operate hotels and provides hotel management services to third parties in Hong Kong and Mainland China. Its Road and Bridge segment invests in various road and bridge projects, which engages in the toll road operation and road management in Mainland China. The company's Others segment provides treasury services in Hong Kong and Mainland China, as well as corporate and other related services. It offers financing, marketing management, environmental engineering, and water technology development and consultation services.	Relevant to the business of the Target: Income From Water Distribution, Construction Services and Water Pipeline Installation and Consultancy Services (55.0%)

No.	Stock Ticker	Company Name	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
4	SEHK:1026	Universal Technologies Holdings Limited	<p>Universal Technologies Holdings Limited, an investment holding company, primarily engages in the water supply and related services business in the People's Republic of China, Hong Kong, and internationally. The company operates through Water Supply and Related Services; Properties Investment and Development; and Financial Services segments. The Water Supply and Related Services segment supplies tap water to various districts of Qingyuan City, Guangdong province through water treatment plants. The Properties Investment and Development segment develops, leases, and manages land, and commercial and residential properties. The Financial Services segment engages in the provision of corporate finance advisory, asset management, securities brokerage, and margin financing services. The company is also involved in the provision of investment advisory, securities dealing, estate development, and water quality testing services businesses.</p>	<p>Relevant to the business of the Target: Water Supply and Related Services Income (89.9%)</p>

No.	Stock Ticker	Company Name	Business Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
5	SEHK:2281	Luzhou Xinglu Water (Group) Co., Ltd.	Luzhou Xinglu Water (Group) Co., Ltd., together with its subsidiaries, operates as an integrated municipal water service provider in the People's Republic of China. The company operates in two segments, Tap Water Supply and Wastewater Treatment. It is involved in the water supply and wastewater treatment; trading; construction; software development and sale; and pipeline installation activities, as well as offers technology services. As of December 31, 2023, the company owned and operated twelve tap water plants with a daily supply capacity of approximately 774,000 tons; 9 city wastewater treatment plants with a daily treatment capacity of approximately 489,000 tons; 2 industrial park wastewater treatment plants with a daily treatment capacity of 30,000 tons; 5 entrusted wastewater treatment plants with a daily treatment capacity of 47,000 tons; and 294 wastewater treatment facilities in townships and rural areas with a daily treatment capacity of 75,000 tons. It serves urban and rural residents, industrial and commercial users, local governments, and other institutions.	Relevant to the business of the Target: Tap Water Supply (51.0%)

Source: S&P Capital IQ, Bloomberg and latest financial reports of the comparable companies

- (1) Based on the latest annual financial data as of the Valuation Date from the latest available public disclosure on the annual financial result of the comparable companies.

The computation of the Cost of Equity is shown as follows:

Parameters	Input as of the Valuation Date	<i>Note</i>
Unlevered Beta	0.29	(1)
Re-levered Beta	0.70	(2)
Equity Risk Premium	5.63%	(3)
Risk Free Rate	2.22%	(4)
Cost of Equity	6.18%	
Small Size Premium	3.29%	(5)
Specific Risk Premium	0.50%	(6)
Cost of Equity	9.97%	
Cost of Equity Adopted	10.00%	

Notes:

- (1) It is derived based on the selected comparable companies as of the Valuation Date, sourced from S&P Capital IQ;
- (2) Re-levered beta in accordance to the long-term capital structure of the selected listed comparable companies;
- (3) Based on implied equity risk premium of the PRC estimated by Aswath Damodaran as of January 2024;
- (4) The yield-to-maturity of the government bond with the longest maturity (plus term premium) in the PRC, sourced from S&P Capital IQ;
- (5) The size of the segment falls in the 10th decile and therefore, we utilized a size premium of 3.29%, which is extracted from the 10th decile according to 2023 CRSP Deciles Size Study, sourced from Kroll Cost of Capital Navigator; and
- (6) An additional 0.50% specific risk premium reflects the operational risks and business uncertainties of the Water Supply and Construction Segment as compared to the listed comparable companies.

Business Enterprise Value Indicated by the Income Approach

Based on the aforementioned key assumptions and discount rate, the business enterprise value (“BEV”) of the Water Supply and Construction Segment was derived at approximately RMB346 million.

While the DCF method gives an indicative BEV as a whole, the value of the segment is derived from BEV after adjustment of net cash, non-operating liabilities and investment properties. Brief descriptions of such adjustments are shown as below:

(1) Net Cash

As of the Valuation Date, there is no net cash according to the financial statements of the Water Supply and Construction Segment provided by the Management.

(2) Non-operating liabilities

As of the Valuation Date, non-operating assets and liabilities mainly consist of government grants (approximately RMB -19.3 million), deferred tax liabilities (approximately RMB -12.6 million), other loans, other payables and interest in associates. According to the financial statements of the Water Supply and Construction Segment, the net total amount of the non-operating liabilities was approximately RMB33.2 million as of the Valuation Date.

(3) Investment properties

The total fair value of the Investment Properties is approximately RMB13.3 million as of the Valuation Date.

The Investment Properties comprise:

- i. various retail units (with the frontage facing Wenti Road) situated at the ground level of a 7-storey commercial building on Wenti Road in Yichun City, Jiangxi Province, the PRC;
- ii. a retail unit (with the frontage facing Zhong Shan Xi Road Fu Road) situated at the ground level of a 7-storey commercial building on Zhong Shan Xi Road in Yichun City, Jiangxi Province, the PRC;
- iii. a retail unit situated within Chang Qing Complex on Huan Cheng Nan Road in Yichun City, Jiangxi Province, the PRC;
- iv. a commercial unit situated within Hua Cheng Yan, north of Xiujiang in Yichun City, Jiangxi Province, the PRC; and
- v. a retail unit situated within Wenbifeng Water Plant in Yichun City, Jiangxi Province, the PRC.

We have adopted income approach, specifically the term and reversion method, in our valuation. We estimate the value of the Investment Properties by taking into account the rental income of the properties derived from the existing leases and/or achievable in the existing market, with due allowance for the reversionary income potential of the leases. These values have then been capitalized to determine the market value at an appropriate capitalization rate.

Value of the Water Supply and Construction Segment (in RMB'000)

Enterprise Value	346,267
Add: Net Cash	—
Less: Non-operating liabilities	(33,209)
Add: Investment Properties	<u>13,260</u>

**Value of the Water Supply and Construction Segment
(Marketable Basis)**

326,318

VALUATION OF THE SEWAGE TREATMENT SEGMENT

In the appraisal of the value of Yichun Fangke, we applied Income Approach due to the following reasons:

- Asset Based Approach is not appropriate in appraisal as it assumed the assets and liabilities of the segment are separable and can be sold separately. This methodology is more appropriate for the industry that their assets can be sold separately, like property development and financial institution. Thus, Asset Based Approach is not adopted in the valuation of Yichun Fangke.
- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Due to the uniqueness of location and the limited economic lives of Yichun Fangke, we have not identified sufficient recent market transactions comparable to this segment. Valuation based on public listed companies which operate on going concern basis in general is also considered inappropriate.
- Under Income Approach, the value is dependent on the present value of future economic benefits such as cost savings, periodic income, or sale proceeds. This method factors in the specific considerations surrounding the Proposed Disposal, such as the limited economic lives and the future substantial cost of construction of sewage treatment facilities, and produces more relevant valuation results.

Given Market Approach and Asset Based Approach are not appropriate for valuation of Yichun Fangke, and the Management has provided us the Projections, the value derived from Income Approach is considered appropriate for the valuation of Yichun Fangke.

DCF method of Income Approach was adopted to appraise the fair value of Yichun Fangke. The value depends on the present value of future economic benefits to be derived from ownership of the enterprise. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

In applying the DCF, we have adopted the FCFE to assess the valuation of this entity. FCFE is the common approach adopted in valuing infrastructure assets given the varying capital structure over the life of the assets as projects are initially highly geared to fund construction, and as investors in infrastructure assets seek to maximize distributions over time through leverage.

Major Assumptions of Equity Value Analysis

To determine the future cash flow derived from Yichun Fangke, we relied on the Projections provided by the Management. We have performed high-level analysis and review of the Projections and discussed with the Management about the reasonableness of the Projections. Brief descriptions of major assumptions of the Projections have been shown below:

(1) Projection Period

According to the concessionary operation agreements 《宜春市污水處理廠“BOT”項目特許經營權合同條款》 & 《宜春市方科污水處理有限公司BOT項目合同書補充協議》 entered by 宜春市綜合行政執法局 and Yichun Fangke, the projection period was determined based on the contract period of the operating concession right, i.e., 29.5 years since the commencement date on 1 March 2007. Hence, the projection period covers the entire operation period from the Valuation Date to the end of the exclusive operating concession right, i.e., 31 August 2036.

(2) Revenue

Revenue of the Sewage Treatment Services Segment is derived from sewage treatment services, which is driven by multiplying (a) volume of sewage treatment per year with (b) sewage treatment price per ton of water.

(a) Volume of Sewage Treatment

As of the Valuation Date, the actual daily volume of sewage treatment for the six months ended 30 June 2024 was around 131,800 tons. Due to the growth in demand, the Management expects a 2% annual growth in the volume of daily sewage treatment per year starting from FY2025 until reaching its daily capacity, with a total of approximately 140,000 tons per day throughout the projection period.

(b) Sewage Treatment Price

As advised by the Management, the sewage treatment price per ton of water is around RMB0.89. The Management expects a price increment of 10% for every 5 years starting from FY2025 on the unit price throughout the projection period to reflect future potential adjustments in sewage treatment price.

(3) Cost of Sales

The cost of sales of sewage treatment services mainly comprises electricity expenses, depreciation and amortization expenses, salary and other staff benefits expenses, repair and maintenance expenses, pharmacy cost and other expenses.

The Management estimates a 2% annual inflationary growth for (i) the unit price per ton of water for electricity expenses, (ii) salary and other staff benefits expenses; and (iii) repair and maintenance expenses. Depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets. Pharmacy cost and other expenses are estimated based on the percentage of sewage treatment services revenue with reference to the historical level.

(4) Operating Expenses

Operating expenses of Yichun Fangke mainly consist of salary and other staff benefits expenses, depreciation and amortization expenses and other administration/research and development expenses. Operating expenses as a percentage of revenue are forecast to range from 12.3% to 15.3% throughout the projection period.

Salary and other staff benefit expenses are estimated based on historical operating expenses with 2% annual inflationary growth during the forecast period. Depreciation and amortization expenses are determined based on the projected capital expenditure and the remaining useful lives of the related assets. Other administration/research and development expenses are estimated based on the percentage of total revenue with reference to the historical level.

(5) EBITDA Margin

The forecast EBITDA margin of the Sewage Treatment Services Segment varies between 42.9% to 46.4% over the forecast period. We noted that the range of forecast EBITDA margin is within the range of historical financials of the comparable companies.

(6) Tax Rate

According to the Management, Yichun Fangke is qualified as third-party enterprises engaged in pollution prevention and control under “Announcement of the Ministry of Finance, the State Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment on Issues Concerning Enterprise Income Tax Policies for Third-Party Enterprises Engaging in Pollution Prevention and Control”. Therefore, the applicable corporate income tax of Yichun

Fangke shall be levied at the reduced rate of 15% till FY2027 and is subject to a tax rate of 25% per annum from FY2028 and thereafter, which is the statutory corporate income tax rate in the PRC.

(7) CAPEX

As advised by the Management, the Target requires certain maintenance expenditure for property, plant and equipment and operating concession rights. Except for FY2024, the projected annual maintenance CAPEX ranges from approximately RMB2.8 million to RMB5.4 million from FY2025 to the end of the projection period.

(8) Working Capital

Working capital of Yichun Fangke mainly includes trade receivable, prepayments and deposits, inventories, trade payable, income tax payable and salary payables. As advised by the Management, no working capital is assumed for the 8-month period ending August 2036 due to the end of the contract period in the same year.

(9) Residual Value

No residual value is considered as the sewage treatment plant and related equipment is required to be transferred to the government without any consideration by end of the concession period, according to the concession agreement.

Discount Rate

The cost of equity was determined using the modified CAPM as illustrated in the above section.

In computation of the beta coefficient, we have observed the share price movements relative to the respective equity market indices of listed comparable companies.

The comparable public companies are selected with reference to the following selection criteria:

- The principal business of the companies is provision of sewage treatment services and related services and/or construction and installation services;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed on the SEHK with more than 3 years' listing period; and
- The financial information of the companies is available to the public.

During our research process, as obtained on the best effort basis, we have identified an exhaustive list of eight comparable companies that engaged in similar business with the Target. As mentioned above, since no two companies are ever exactly alike, the differences should not overshadow the similarities of the business nature of the companies. We consider these companies are comparable to the Target.

Based on the above selection criteria, we have identified 8 comparable companies listed as follows:

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
1	SEHK:6136	Kangda International Environmental Company Limited	Kangda International Environmental Company Limited, an investment holding company, engages in the urban water treatment, water environment comprehensive remediation, and rural water improvement businesses in People's Republic of China. Its Urban Water Treatment segment designs, constructs, upgrades, and operates of wastewater treatment plants, reclaimed water treatment plants, sludge treatment plants, and water distribution plants; and the operation and maintenance of wastewater treatment facilities entrusted by governments. The company's Water Environment Comprehensive Remediation segment provides river harnessing and improvement, foul water body treatment, and sponge city construction services. Its Rural Water Improvement segment is involved in the construction and operation of water environment facilities in villages, including wastewater treatment, pipeline construction for collecting wastewater, and rural living environment activities. The company constructs municipal infrastructure; invests and manages environmental and public infrastructure projects; development and sale of computer software; invests in energy industry; and sells water purifying materials. It serves municipal, district, or county level governments, as well as their designees.	Relevant to the business of the Target: Urban Water Treatment (95.8%)

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
2	SEHK:371	Beijing Enterprises Water Group Limited	Beijing Enterprises Water Group Limited, an investment holding company, provides water treatment services. The company operates through Sewage and Reclaimed Water Treatment and Construction Services; Water Distribution Services; Technical and Consultancy Services and Sale of Machineries; and Urban Resources Services segments. It constructs sewage and reclaimed water treatment plants, and seawater desalination plants, as well as provides construction services for comprehensive renovation projects in the People's Republic of China, Malaysia, Australia, and the Republic of Botswana. The company also offers sewage and reclaimed water treatment services in People's Republic of China, Singapore, Portugal, Australia, and New Zealand; and distributes and sells piped water in the People's Republic of China, Portugal, and Australia. In addition, it provides technical and consultancy services; and sells machineries related to sewage treatment and construction services for renovation projects in the People's Republic of China and Australia. Further, the company is involved in the licensing of technical know-how related to sewage treatment, and provision of urban services and hazardous waste treatment services in the People's Republic of China; and sale of recycling and reuse products.	Relevant to the business of the Target: Sewage and Reclaimed Water Treatment and Construction Services (57.2%)

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
3	SEHK:6839	Yunnan Water Investment Co., Limited	Yunnan Water Investment Co., Limited, an investment holding company, designs, develops, constructs, operates, and maintains municipal water supply, and wastewater and solid waste treatment facilities in the People's Republic of China and internationally. It operates through Wastewater Treatment, Water Supply, Solid Waste Treatment, Construction and Sales of Equipment, and Others segments. The company constructs and operates wastewater treatment projects, water supply projects, and solid waste treatment projects; and produces, sells, and installs equipment for wastewater treatment, water supply, solid waste treatment, and other infrastructure facilities. In addition, it undertakes operate transfer, build own operate (BOT), transfer operate (BOO), transfer-operate transfer (TOT), transfer own operate (TOO), build and transfer (BT), engineering procurement construction (EPC), rehabilitate operate transfer, operation (ROT), and maintenance related projects. As on 31 December 2022, it had 128 concession wastewater treatment projects, including 7 BOO, 65 BOT, 2 TOO, 25 TOT, 1 ROT, and 28 environment treatment projects. The company was formerly known as Yunnan Water Industry Investment and Development Co., Ltd.	Relevant to the business of the Target: Wastewater Treatment Project Construction and Operation (53.6%)

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
4	SEHK:2281	Luzhou Xinglu Water (Group) Co., Ltd.	Luzhou Xinglu Water (Group) Co., Ltd., together with its subsidiaries, operates as an integrated municipal water service provider in the People's Republic of China. The company operates in two segments, Tap Water Supply and Wastewater Treatment. It is involved in the water supply and wastewater treatment; trading; construction; software development and sale; and pipeline installation activities, as well as offers technology services. As of December 31, 2023, the company owned and operated twelve tap water plants with a daily supply capacity of approximately 774,000 tons; 9 city wastewater treatment plants with a daily treatment capacity of approximately 489,000 tons; 2 industrial park wastewater treatment plants with a daily treatment capacity of 30,000 tons; 5 entrusted wastewater treatment plants with a daily treatment capacity of 47,000 tons; and 294 wastewater treatment facilities in townships and rural areas with a daily treatment capacity of 75,000 tons. It serves urban and rural residents, industrial and commercial users, local governments, and other institutions.	Relevant to the business of the Target: Wastewater Treatment (47.4%)

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
5	SEHK:3768	Kunming Dianchi Water Treatment Co., Ltd.	Kunming Dianchi Water Treatment Co., Ltd., together with its subsidiaries, designs, develops, constructs, operates, and maintains water supply and wastewater treatment facilities in the People's Republic of China. The company operates through Wastewater Treatment, Water Supply, and Others segments. It designs, constructs, operates, and maintains wastewater treatment or water supply facilities under the build-own-operate, transfer-own-operate, transfer-operate-transfer, and build-operate-transfer concession arrangements. The company is also involved in the reclaimed water supply and running water supply; wastewater treatment; water quality testing; provision of logistics and leasing services, and training; and manufacture and sale of chemical products. In addition, it provides management, transportation, solid waste treatment, soil restoration, construction management, watershed management, clean energy, scientific research cooperation, project incubation, and other areas, as well as engages in the thermal production activities.	Relevant to the business of the Target: Wastewater Treatment (68.2%)
6	SEHK:1065	Tianjin Capital Environmental Protection Group Company Limited	Tianjin Capital Environmental Protection Group Company Limited, together with its subsidiaries, engages in the sewage treatment and construction of the sewage treatment plants in the People's Republic of China. The company offers municipal sewage treatment, recycling water services, water supplying, new energy cooling and heating, sludge treatment, hazardous waste management, as well as research and development and sales platform for environmental technology products and third-party management business.	Relevant to the business of the Target: Sewage Water Processing and Sewage Treatment Plant Construction (72.4%)

No.	Stock Ticker	Company Name	Brief Description	Revenue Contribution from Business Segment(s) Relevant to the Business of the Target ⁽¹⁾
7	SEHK:1857	China Everbright Water Limited	China Everbright Water Limited, an investment holding company, engages in the water environment management business in Mainland China and Germany. It is involved in municipal wastewater treatment, industrial wastewater treatment, water supply, reusable water, sludge treatment and disposal, sponge city construction, river-basin ecological restoration, wastewater source heat pump, and leachate treatment, as well as research and development on water environmental technologies and engineering construction.	Relevant to the business of the Target: Water Environment Management (100.0%)
8	SEHK:807	SIIC Environment Holdings Ltd.	SIIC Environment Holdings Ltd., an investment holding company, engages in the wastewater treatment, water supply, sludge treatment, solid waste incineration, and other environment related businesses primarily in the People's Republic of China. The company operates through Water and Sludge Treatment; Water Supply; and Waste Incineration segments. The Water and Sludge Treatment segment constructs, manages, and operates water and sludge related infrastructure under service concession arrangements; and manages and operates water and sludge related infrastructure under non-service concession arrangements, as well as provides financial income under service concession arrangements. The Water Supply segment engages in the construction, management, and operation of water supply related infrastructure under service concession arrangements. The Waste Incineration segment constructs, manages, and operates waste incineration related infrastructure under service concession arrangements. It also provides design, installation, and consultancy of water meter activities. The company operates water treatment, supply projects, waste incineration projects, and sludge treatment projects in municipalities and provinces in China.	Relevant to the business of the Target: Water and Sludge Treatment (66.4%)

Source: S&P Capital IQ, Bloomberg and latest financial reports of the comparable companies

(1) Based on the latest annual financial data as of the Valuation Date from the latest available public disclosure on the annual financial result of the comparable companies.

The computation of the Cost of Equity is shown as follows:

Parameters	Input as of the Valuation Date	<i>Note</i>
Unlevered Beta	0.10	(1)
Re-levered Beta	0.55	(2)
Equity Risk Premium	5.63%	(3)
Risk Free Rate	2.22%	(4)
Cost of Equity	5.37%	
Small Size Premium	3.29%	(5)
Specific Risk Premium	0.50%	(6)
Cost of Equity	9.16%	
Cost of Equity Adopted	9.00%	

Notes:

- (1) It is derived based on the selected comparable companies as of the Valuation Date, sourced from S&P Capital IQ;
- (2) Re-levered beta in accordance to the long-term capital structure of the selected comparable companies;
- (3) Based on implied equity risk premium of the PRC estimated by Aswath Damodaran as of January 2024;
- (4) The yield-to-maturity of the government bond with the longest maturity (plus term premium) in the PRC, sourced from S&P Capital IQ;
- (5) The size of the segment falls in the 10th decile and therefore, we utilized a size premium of 3.29%, which is extracted from the 10th decile according to 2023 CRSP Deciles Size Study, sourced from Kroll Cost of Capital Navigator; and
- (6) An additional 0.50% specific risk premium reflects the operational risks and business uncertainties of Yichun Fangke as compared to the listed comparable companies.

Business Enterprise Value indicated by the Income Approach

Based on the aforementioned key assumptions and discount rate, the BEV of Yichun Fangke was derived at approximately RMB127 million.

While the DCF method gives an indicative BEV as a whole, the value of Yichun Fangke is derived from BEV after adjustment of net cash and non-operating assets. Brief descriptions of such adjustments are shown as below:

(1) Net Cash

As of the Valuation Date, net cash is approximately RMB21.8 million according to the financial statements of Yichun Fangke provided by the Management.

(2) Non-operating assets

As of the Valuation Date, non-operating assets and liabilities mainly consist of investment in joint venture (i.e., Yichun Mingyue Mountain) (approximately RMB20.4 million), other receivable (approximately RMB14.3 million), deferred revenue for government grants (approximately RMB -7.5 million), deferred tax liabilities (approximately RMB -4.1 million), amount due from Joint Venture and deposits paid for the acquisition of property, plant and equipment. According to the financial statements of Yichun Fangke, the net total amount of the non-operating assets was approximately RMB25.8 million as of the Valuation Date.

Equity Value of Yichun Fangke (in RMB'000)

Enterprise Value	126,518
Add: Net Cash	21,824
Add: Non-operating assets	<u>25,839</u>
100% Equity Value of the Yichun Fangke (Marketable Basis)	<u>174,180</u>
54.33% Equity Value of Yichun Fangke held by Yichun Water (Marketable Basis)	<u>94,632</u>

SUMMARY OF RESULTS

Based on the aforementioned valuation methodology, the result of the 51% equity value of Yichun Water was derived as below:

	<i>(RMB'000)</i>
100% Equity Value of Yichun Water	
(i) Water Supply & Construction Segment	326,318
(ii) Sewage Treatment Segment	
54.33% Equity Interests in Yichun Fangke	<u>94,632</u>
100% Equity Value of Yichun Water (Marketable Basis)	<u>420,950</u>
51% Equity Value of Yichun Water (Marketable Basis)	214,685
Less: Lack of Marketability Discount ("LoMD") ^{Note 1}	15.7% <u>(33,706)</u>
51% Equity Value of Yichun Water (Non-Marketable Basis)	<u>180,979</u>

Note:

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

As the shares of the Target is unlikely to be listed in any major stock exchange or be marketable in any over-the-counter market in near future, the ownership interest in the Target is not readily marketable. However, the discount rate adopted in the valuation was calculated from public listed companies, which represents marketable ownership interest; fair value calculated using such discount rate, therefore, represents the marketable interest. Thus, LoMD was adopted to adjust such marketable interest fair value to non-marketable interest fair value.

The report “Stout Restricted Stock Study Companion Guide (2023 edition)” by Stout Risius Ross, LLC, a reputable research company, suggested a median marketability discount is 15.7%. A marketability discount of 15.7% is considered appropriate and suitable for this valuation as we understand that the Target is a group of privately held companies.

The value of non-marketable interest can be calculated from marketable interest using the following formula:

$$\text{Fair Value of Non-Marketable Interest} = \text{Fair Value of Marketable Interest} \times (1 - \text{LoMD})$$

SENSITIVITY ANALYSIS

The following tables show the sensitivity tests on how the fair value of the equity interests of the Target changes in response to changes in (i) discount rate; and (ii) discount for lack of marketability:

	Fair Value <i>RMB'000</i>
Discount rate increases by 1% to 11% for Water Supply and Construction Segment and 10% for Sewage Treatment Segment	173,510
Discount rate decreases by 1% to 9% for Water Supply and Construction Segment and 8% for Sewage Treatment Segment	189,005
Discount for lack of marketability increases by 1% to 16.7%	178,832
Discount for lack of marketability decreases by 1% to 14.7%	183,126

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that the fair value of the 51% equity value of the Target as of the Valuation Date is approximately RMB181 million.

The conclusion of the fair value was prepared in compliance with the requirements of International Valuation Standards published by The International Valuation Standards Council, with the conclusion of value relying extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in China Water Industry Group Limited nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA (HK), FCPA (Aus.), MRICS,
RICS Registered Valuer
Managing Partner

Analyzed and Reported by:

Mos H M Kwan, *CFA, FRM*
Manager

Keith Y C Yuk, *CPA (HK)*
Assistant Manager

Chalet K Y Wong, *CFA*
Senior Analyst

Andy C K Fong
Analyst

Note: Mr. Vincent Pang is a member of CFA Institute, a fellow member of the CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of Royal Institution of Chartered Surveyors (“**RICS**”) and a RICS Registered Valuer. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC.

APPENDIX I — GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.
- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the investment properties appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.
- We have not verified particulars of investment properties, including their areas, sizes, dimensions, and descriptions, which we have used or have referred to in connection with the preparation of this Report, unless otherwise stated in this Report. Any information regarding areas, sizes, dimensions, and descriptions of investment properties mentioned in this Report are for identification purposes only, and no one should use such information in any conveyance or other legal document. Any plans or graphical illustrations presented in this Report are intended only for facilitating the visualization of the investment properties and its surroundings and such plans or graphical illustrations should not be regarded as a survey or a scale for size.
- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.
- This Report has been prepared solely for the use or uses stated. Except for extraction of or reference to the Report by the Company, its financial advisor and/or its independent financial advisor for their respective work in relation to the Proposed Disposal or pursuant to any applicable laws, rules or regulation or requirement of any competent regulatory authorities, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.
- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report. Except for disclosure in the Circular in relation to the Proposed Disposal, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organisations with which they are affiliated or the

designations awarded by those organisations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- No environmental impact study has been carried out, unless otherwise stated in this Report. We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organizations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.
- Unless otherwise stated in this Report, the value estimate set out in this Report excludes the impact of presence of any harmful substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials or of structural damage or environmental contamination. For purposes of evaluating potential structural and/or environmental defects, where their existence could have a material impact on value of the investment properties, we would recommend that advices from the relevant experts, such as a qualified structural engineer and/or industrial hygienist, should be sought.

**APPENDIX III REPORT FROM THE REPORTING ACCOUNTANT ON THE CALCULATION
OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION
WITH THE BUSINESS VALUATION OF THE DISPOSAL GROUP**

The following is the text of a letter from Crowe (HK) CPA Limited, Certified Public Accountants, which has been prepared for the purpose of inclusion in this circular.

**REPORT ON THE CALCULATION OF DISCOUNTED FUTURE ESTIMATED CASH
FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF 51% EQUITY
INTERESTS IN YICHUN WATER INDUSTRY GROUP CO., LIMITED**

TO THE BOARD OF DIRECTORS OF CHINA WATER INDUSTRY GROUP LIMITED

We refer to the discounted future estimated cash flows on the business valuation in connection with the fair value of the 51% equity interests in Yichun Water Industry Group Co., Limited (the “Disposal Company”) as of 30 June 2024 (the “Valuation”) prepared by AVISTA Valuation Advisory Limited, the independent valuer of the Company (the “Independent Valuer”).

According to the Valuation Report, the Valuation has been arrived at using the income approach based on the discounted cash flow method, which constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ Responsibilities

The directors of China Water Industry Group Limited (the “Directors”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

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

**APPENDIX III REPORT FROM THE REPORTING ACCOUNTANT ON THE CALCULATION
OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION
WITH THE BUSINESS VALUATION OF THE DISPOSAL GROUP**

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

Reporting Accountants' Responsibilities

It is our responsibility to report, as required by paragraph 14.60A(2) of the Listing Rules, on the arithmetical accuracy of the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500, *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to 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 ("HKICPA"). Those standards requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions. 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.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Disposal Company or an expression of an audit or review opinion on the Valuation.

**APPENDIX III REPORT FROM THE REPORTING ACCOUNTANT ON THE CALCULATION
OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION
WITH THE BUSINESS VALUATION OF THE DISPOSAL GROUP**

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.60A(2) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 23 August 2024

Sze Chor Chun Yvonne
Practising Certificate Number P05049

The following is the text of a letter from Kingston Corporate Finance Limited, which has been prepared for the purpose of inclusion in this circular.

23 August 2024

The Board of Directors
China Water Industry Group Limited
Office H, 8/F.
Kingston International Centre
19 Wang Chiu Road
Kowloon Bay, Hong Kong

Dear Sirs or Madams,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE DISPOSAL OF 51% EQUITY INTERESTS IN
YICHUN WATER INDUSTRY GROUP CO., LIMITED**

We refer to the circular (the “**Circular**”) of China Water Industry Group Limited (the “**Company**”) dated 23 August 2024 in relation to the proposed disposal of the 51% equity interest in Yichun Water Industry Group Co., Limited (the “**Disposal Company**”) and the valuation of the Disposal Company (the “**Valuation**”) prepared by AVISTA Valuation Advisory Limited, the independent valuer of the Company (the “**Independent Valuer**”). The details of the Valuation are contained in the valuation report (the “**Valuation Report**”) dated 23 August 2024, as set out in Appendix II to the Circular.

According to the Valuation Report, the Valuation has been arrived at using the income approach based on the discounted cash flow method, which constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

For the purpose of preparing this letter, we have reviewed the forecast (the “**Forecast**”) of future cash flows of the Disposal Company underlying the Valuation, for which you as the directors (the “**Directors**”) of the Company are solely responsible, and have discussed with the management of the Company and the Independent Valuer on the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Crowe (HK) CPA Limited, the Company’s reporting accountant (the “**Reporting Accountant**”), dated 23 August 2024 addressed to you containing its opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows, details of which are set out in Appendix III to the Circular. We have noted that the discounted future estimated cash flows do not involve the adoption of accounting policy.

We have not independently verified the computations leading to the determination of the Valuation by the Independent Valuer. The assessment, review and discussions carried out by us as described in this letter are based on financial, economic, market and other conditions in effect, and the information available to us as of the date of this letter and we have, in arriving at our views, relied on information and materials provided to us by the Company, the

Independent Valuer and the Reporting Accountant and opinions expressed by, and representations of, the employees and/or the management of the Company, the Independent Valuer and the Reporting Accountant. We have assumed, without independent verification, that all the information, materials and representations so provided, including all the information, materials and representations referred to or contained in the Circular, for which you as the Directors are wholly responsible, were true, accurate, complete and not misleading in all material respects at the time they were provided or made and continued to be so up to the date of this letter, and that no material facts have been withheld or omitted from the information, materials and representations provided. No representation or warranty, expressed or implied, is made by us on the truth, accuracy or completeness of such information, materials, opinions and/or representations referred to or contained in the Circular, and we have not assumed any responsibility or liability therefor. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review.

It should be noted that the Forecast has been prepared using a set of assumptions which include hypothetical assumptions about future events that may or may not occur and therefore the Forecast may not be appropriate for purposes other than for deriving the Valuation. Even if the events anticipated under the hypothetical assumptions occur, actual financial performance may still differ from the Forecast since such anticipated events frequently may or may not occur as expected and the variation could be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted in the Valuation, for which the Independent Valuer and the Company are responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, has been made by you after due and careful enquiry. For the avoidance of doubt, this letter does not constitute an independent valuation or fairness opinion and is expressly limited to the matters described herein.

The work undertaken by us in connection with the Forecast has been undertaken solely for the compliance of Rule 14.60A(3) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Your faithfully,
For and on behalf of
Kingston Corporate Finance Limited
Gregory Ho
Managing Director — Mergers & Acquisitions

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the "Model Code") were as follows:

Interests in Shares

Name of Director/Chief Executive	Nature of interest	Number of Shares interested	Approximate percentage of issued share capital of the Company <i>(Note 1)</i>
Ms. Chu Yin Yin, Georgiana	Beneficial owner	1,112,000 (L)	0.04%

Notes:

- The shareholding percentage in the Company is calculated on the basis of 2,873,609,649 Shares in issue as at the Latest Practicable Date.
- The letter "L" denotes a long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor 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) 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.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

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

Interest in Shares

Name of Shareholder	Nature of interest	Number of Shares interested	Approximate percentage of issued share capital of the Company <i>(Note 1)</i>
Step Wide Investment Limited	Beneficial owner	707,821,018 (L) <i>(Note 2)</i>	24.63%

Notes:

1. The shareholding percentage in the Company is calculated on the basis of 2,873,609,649 Shares in issue as at the Latest Practicable Date.
2. These shares are held by Step Wide Investment Limited (“**Step Wide**”) of which Mrs. Chu Yuet Wah (“**Mrs. Chu**”) is the beneficial owner. As such, Mrs. Chu is deemed to be interested in the Shares held by Step Wide by virtue of the SFO.
3. The letter “L” denotes a long position in the Shares.

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

3. COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Zhu Yongjun (“**Mr. Zhu**”) being the chairman, and executive Director of the Company, was interested in approximately 5.40% of the issued share capital of New Concepts Holdings Limited (stock code: 2221) (“**New Concepts**”), the issued shares of which are listed on the Main Board of the Stock Exchange and New Concepts is engaged in environmental protection businesses including the provision of kitchen waste treatment related business in the PRC. Mr. Zhu also served as the chairman and executive director of New Concepts. In February 2024, upon the entering into of the service contract between an indirect wholly-owned subsidiary of the Company and the Environmental Protection Department of the Government of Hong Kong, the Group has commenced the business in the provision of food waste collection services.

Notwithstanding the fact that the Group and New Concepts are both engaged in the provision of food waste related services, the Company considers that there has not been competition between the Company and New Concepts as there is clear geographical delineation among the food waste related services of the Group and that of New Concepts.

As the Board is independent from the board of New Concepts and Mr. Zhu does not personally control the Board, the Group is capable of carrying its businesses independently of, and at arm’s length from the businesses of New Concepts.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with the any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. INTERESTS IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

6. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2023 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

7. LITIGATION AND ARBITRATION

(i) **Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company**

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited (“**Swift Surplus**”) (collectively as the “**Lenders**”) entered into repayment agreements (the “**Repayment Agreements**”) with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited (“**Top Vision**”) (collectively as the “**Borrowers**”) together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK\$58.43 million together with interest accrued thereon. Despite several requests and demands by the Company, Top Vision failed to repay HK\$53.43 million (the “**Remaining Loan Receivables**”). On 14 May 2013, the Company instructed its legal counsel to file the writ of summons to the High Court of Hong Kong Special Administrative Region (the “**High Court**”) to recover the Remaining Loan Receivables from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Remaining Loan Receivables to Swift Surplus. Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding up Order under Companies Winding-up Proceedings No.157/2014 and appointed SHINEWING Specialist Advisory Services Limited as liquidators.

In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and their respective guarantors by filing the notices of Arbitration to Hong Kong International Arbitration Centre (“**HKIAC**”). As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables. On 28 June 2019, Sihui City People’s Court adjudged the final judgment to execute in Mainland China for the recovering the outstanding balance and the underlying interest from Top Vision and to freeze the entire equity interest held by Top Vision on Sihui Sewage till July 2022. On 16 March 2020 the arbitrator of HKIAC made an arbitration award that each guarantor should bear joint and

several liabilities to repay the principal amount of HK\$17.31 million together with interest accrued thereon to Swift Surplus. On 30 November 2021, Swift Surplus had submitted the application to the Sihui City People's Court for the resumption of civil enforcement on Top Vision. In January 2022, Swift Surplus resubmitted the application to the Sihui City People's Court again for the resumption of execution of the final judgement granted in July 2015 to continue to freeze the entire equity interest on Sihui Sewage for another 3 years till July 2025. In January 2022, the Lenders petitioned to the Shenzhen Intermediate People's Court and the Zhaoqing Intermediate People's Court for recognition and enforcement of Hong Kong awarded arbitrations in order to collect the debt from the guarantors. In June 2022, Sihui City People's Court accepted the application and adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for addition 2 years from June 2022 to June 2024. On 22 May 2023, the Zhaoqing Intermediate People's Court and the Guangdong Higher People's Court recognised and acknowledged for enforcement in the PRC the arbitral award of the guarantors (the "**Guarantor's Award**"). The Guangdong Province Higher People's Court issued a judgement efficacy certificate on 8 August 2023, allowing the Company to enforce the Guarantor's Award in the PRC. The Zhaoqing Intermediate People's Court acknowledged the enforcement of the Guarantors' Award in the PRC on 11 August 2023. In March 2024, Swift Surplus had submitted the application to Sihui City People's Court again for the purpose of continuing to freeze all equity interests in Sihui Sewage. The Sihui City People's Court ruled to freeze all equity interest in Sihui Sewage for an additional two years for the period from June 2024 to June 2026. The PRC legal proceeding is still in progress.

(ii) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK\$10 million ("**Refundable Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake Project. Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Refundable Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Yunnan Dian Lake Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Refundable Deposit to Guangzhou Hyde when it fell due. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. On 13 August 2019, Yunnan Chaoyue Gas and Guarantors failed to fulfil the settlement agreement, Kunming Court accepted the application relating to the resumption of civil enforcement which submitted by Guangzhou Hyde. On 20 November 2019, the Kunming Court adjudged the Guarantors to repay the arbitration fee, the principal together with the underlying interest to Guangzhou Hyde within 10 days. On 8 January 2021, the Kunming Court failed to locate any assets from Yunnan Chaoyue Gas and the guarantors even taken exhaustive enforcement measures, and ruled to terminate this execution. The Kunming Court will resume the execution of this case in accordance

with the law once any assets available for execution being found. On 21 June 2023, the Kunming Municipal Court held a hearing on the bankruptcy liquidation of Yunnan Chaoyue Gas upon the application of Guangzhou Hyde. As at the Latest Practicable Date, Yunnan Chaoyue Gas and the guarantors had not performed court judgement and no significant progress on this legal proceeding.

(iii) New China Water (Nanjing) Energy Company Limited* (新中水(南京)能源有限公司), indirect non-wholly owned subsidiary of the Company

In October 2018, New China Water (Nanjing) Energy Company Limited (“**New China Water Energy**”), New China Water (Nanjing) Carbon Company Limited (“**New China Water Carbon**”) and Jinling Construction Group of Jiangsu Province Co. Ltd.* (江蘇省金陵建工集團有限公司) (“**Jinling Construction**”) entered into the construction contract for construction works, pursuant to which Jinling Construction became the construction contractor for Nanjing Space Big Data Industry Base which was developed by New China Water Energy and New China Water Carbon. On 26 January 2022, Jinling Construction filed a lawsuit to Nanjing City Jiangning District People’s Court* (南京市江寧區人民法院) (the “**Jiangning Court**”) regarding the allegedly unsettled payment of construction fee by New China Water Energy and New China Water Carbon as co-defendants to Jinling Construction in the sum of approximately RMB151.59 million. The disposal of New China Water Carbon was completed in June 2023.

On 21 March 2022, Jiangning Court decided to refer the case to the People’s Court of Xuanwu District, Nanjing City, Jiangsu Province* (江蘇省南京市玄武區人民法院) (“**Xuanwu People’s Court**”) for trial.

In August 2022, the involved parties signed the settlement agreement (the “**Settlement Agreement**”) that affirmed the unpaid construction debts of RMB99.91 million and the repayment plan. New China Water Energy and New China Water Carbon had fulfilled a portion of their contractual responsibilities in accordance with the Settlement Agreement. According to the Settlement Agreement, Xuanwu People’s Court issued a civil mediation letter (the “**Civil Mediation Letter**”) confirming that New China Water Energy and New China Water Carbon should jointly and severally pay the outstanding construction debts in the amount of RMB89.91 million including a default claim of RMB8 million.

In June 2023, the parties involved signed Settlement Agreement 1 (the “**Settlement Agreement 1**”) and fulfilled their obligations. The relevant parties signed Settlement Agreement 2 (the “**Settlement Agreement 2**”) in August 2023, and then Jinling Construction has petitioned the Xuanwu People’s Court to withdraw enforcement against New China Water Energy. As at the Latest Practicable Date, New China Water Energy has not fully satisfied its obligations under the Civil Mediation Letter, but partial payments have been made. The Settlement Agreement 2 is currently undergoing implementation, and the PRC legal proceeding is still ongoing.

(iv) **Huizhou Swan Heng Chang Property Development Company Limited*** (惠州鴻鵠恒昌置業有限公司) and **Swan (Huizhou) Investment Company Limited*** (鴻鵠(惠州)投資有限公司), **indirect wholly-owned subsidiaries of the Company**

In January 2018, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) (“**Swan Heng Chang**”) entered into the construction contract for construction works (the “**Construction Contract I**”) with China Minsheng Drawin Construction Technology Group Company Limited (formerly known as China Minsheng Drawin Construction Co., Ltd) (“**CMDC**”), under which CMDC shall act as the construction contractor of the construction project of Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) (“**Honghu Square**”) developed by Swan Heng Chang. To further clarify the rights and obligations of both parties, both parties signed a supplemental agreement in January 2018 to further define the payment terms and other rights and obligations, and the contract price was agreed to be subject to actual settlement based on the actual quantities of work.

On 14 May 2019, Swan Heng Chang entered into the contract termination agreement with CMDC, under which the Construction Contract I and the supplemental agreement were terminated. On 1 August 2019, both parties signed the settlement agreement, which determined the final settlement amount of RMB82.51 million. In September 2020, CMDC filed a lawsuit with the Huicheng District People’s Court of Huizhou City (“**Huicheng People’s Court**”) against Swan Heng Chang and its shareholder, Swan (Huizhou) Investment Company Limited* (鴻鵠(惠州)投資有限公司) (“**Swan Investment**”) as co-defendants, requesting Swan Heng Chang to settle the construction payment and demand Swan Investment to bear joint and several liabilities. On 14 April 2021, under the mediation of Huicheng People’s Court, Swan Heng Chang reached a settlement agreement with CMDC, under which Huicheng People’s Court issued a civil mediation order, which confirmed that the total amount payable by Swan Heng Chang to CMDC was RMB28.42 million and that Swan Investment was jointly and severally liable for the settlement of the debt. On 3 December 2021, Swan Heng Chang and Swan Investment were served by Huicheng People’s Court as defendants subject to enforcement for failing to fulfill their obligations under the civil mediation order. On 10 March 2022, upon application by CMDC, the land use right legally owned by Swan Heng Chang was seized by Huicheng People’s Court for the period from 10 March 2022 to 9 March 2025. As at the Latest Practicable Date, the parties are negotiating the settlement agreement and the relevant legal proceeding is still in process.

In July 2021, Swan Heng Chang entered into a construction contract for construction works (the “**Construction Contract II**”) with Shenzhen Zhongrongyu Construction Engineering Limited* (深圳市中榮煜建築工程有限公司) (“**Zhongrongyu Construction**”), pursuant to which Zhongrongyu Construction shall act as the construction contractor of the construction project of Honghu Square developed by Swan Heng Chang.

Zhongrongyu Construction and Swan Heng Chang are recently in dispute of certain construction payments in respect of the Construction Contract II and Zhongrongyu Construction has filed a lawsuit with the Huizhou People’s Court against Swan Heng

Chang and Swan Investment as co-defendants, claiming for the settlement of the construction payments and liquidated damages in the aggregate sum of approximately RMB31.60 million, and demand Swan Investment to bear joint and several liabilities. As at the Latest Practicable Date, the PRC legal proceedings is still ongoing.

(v) China Water Industry Group Limited (中國水業集團有限公司*), the Company, and Onfar International Limited (安發國際有限公司), indirect wholly-owned subsidiary of the Company

On 25 March 2024, 海天水務集團股份有限公司 (for transliteration purpose only, Haitian Water Group Company Limited[#]) (“**Haitian Water**”), as purchaser, Billion City Investments Limited, as vendor and the Company entered into an equity transfer agreement in relation to the Previous Proposed Disposal.

The Purchaser has subsequently applied to Yichun City Yuanzhou District People’s Court of Jiangxi Province for the Property Attachment, which aims to freeze the Vendor’s 51% equity interests in the Disposal Company. The application for the Property Attachment has been accepted by the said court.

As disclosed in the announcement of the Company dated 17 June 2024, the Company has received a statement of claim (民事起訴狀) from Yichun City Yuanzhou District People’s Court of Jiangxi Province regarding the Civil Claim by the Purchaser against (i) the Company, as 1st defendant; (ii) Haitian Water, as 2nd defendant; (iii) the Vendor, as 3rd defendant; and (iv) the Disposal Company, as third party, in respect of the Previous Proposed Disposal.

On 26 July 2024, the Purchaser has given an undertaking in favour of the Vendor that it will, following the execution of the Equity Transfer Agreement and prior to the Handover Procedures and Registration of Equity Transfer, file with the Intermediate People’s Court of Yichun City to withdraw the Civil Claim and discharge the Property Attachment.

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

8. QUALIFICATION AND CONSENT OF EXPERTS

The following sets out the qualification of the experts who have given opinions, letter or advice included in this circular (collectively, the “**Experts**”):

Name	Qualifications
Kingston Corporate Finance Limited	Corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
AVISTA Valuation Advisory Limited	Independent professional valuer
Crowe (HK) CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the Experts has given and has not withdrawn its written consents to the issue of this circular with the inclusion herein of their respective letters, reports or names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the Experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Experts had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2023, being the date to which the latest published audited accounts of the Company were made up.

9. MATERIAL CONTRACTS

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

- (i) the transfer agreement and finance lease agreement both dated 29 August 2022 and entered into between 鄭州新冠能源開發有限公司 (for transliteration purpose only, Zhengzhou Xinguan Energy Development Company Limited[#]), an indirect wholly owned subsidiary of the Company (as lessee), and Jiangsu Financial Leasing Co., Ltd. (江蘇金融租賃股份有限公司) (“**Jiangsu Leasing**”) (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of six (6) sets of landfill gas power generating facilities located at an integrated waste treatment plant in Zhengzhou City, Henan Province, the PRC, at the consideration of approximately RMB25,086,000 (equivalent to approximately HK\$28,598,000) for a term of four (4) years;

- (ii) the equity transfer agreement dated 11 October 2022 and entered into between China Water Industry (HK) Limited (“**China Water HK**”), an indirect wholly-owned subsidiary of the Company (as vendor) and 奧德集團有限公司 (for transliteration purpose only, Aode Group Company Limited[#]) (as purchaser) in relation to the sale and purchase of 60% equity interests in 臨沂鳳凰水業有限公司 (for transliteration purpose only, Linyi Fenghuang Water Industry Co., Ltd[#]), for a total consideration of RMB53,000,000 (equivalent to approximately HK\$58,183,000);
- (iii) the finance lease agreement dated 17 October 2022 and entered into between 長沙新中水環保科技有限公司 (for transliteration purpose only, Changsha New China Water Environmental Technology Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and 浙江浙銀金融租賃股份有限公司 (for transliteration purpose only, Zhejiang Zheyin Financial Leasing Company Limited[#]) (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of landfill gas and natural gas power generating facilities, at the consideration of RMB30,000,000 (equivalent to approximately HK\$33,057,000) for a term of 36 months;
- (iv) the capital injection agreement dated 5 January 2023 and entered into among 新中水(南京)再生資源投資有限公司 (for transliteration purpose only, New China Water (Nanjing) Renewable Resources Investment Company Limited[#]) (“**New China Water Nanjing**”), 北京振徽節能環保科技有限公司 (for transliteration purpose only, Beijing Zhenhui Energy Saving and Environmental Protection Technology Co., Ltd.[#]) and 勃利縣中水皖龍可再生能源科技有限公司 (for transliteration purpose only, Boli County Zhongshui Wanlong Renewable Energy Technology Co., Ltd.[#]) (as target company)(“**Boli Zhongshui**”), pursuant to which New China Water Nanjing shall contribute RMB18,000,000 (equivalent to approximately HK\$20,540,000) to the registered capital of Boli Zhongshui;
- (v) the finance lease agreement dated 24 February 2023 and entered into between 長沙新中水環保科技有限公司 (for transliteration purpose only, Changsha New China Water Environment Technology Company Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Sinopharm Holding (China) Finance Leasing Co., Ltd. (國藥控股(中國)融資租賃有限公司) (“**Sinopharm Leasing**”)(as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of landfill gas power generating facilities situated in Changsha City, the PRC, at the consideration of RMB30,000,000 (equivalent to approximately HK\$34,047,000) for a term of 36 months;
- (vi) the finance lease agreement dated 24 February 2023 and entered into between 清遠市青泓環保科技有限公司 (for transliteration purpose only, Qingyuan City Greenspring Environmental Technology Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Sinopharm Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of landfill gas power generating facilities situated in Qingyuan City, the PRC, at the consideration of RMB14,000,000 (equivalent to approximately HK\$15,889,000) for a term of 36 months;

- (vii) the finance lease agreement dated 24 February 2023 and entered into between 深圳市新中水環保科技有限公司 (for transliteration purpose only, Shenzhen City New China Water Environmental Technology Limited[#]) (as lessee), and Sinopharm Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of landfill gas power generating facilities situated in Shenzhen City, the PRC, at the consideration of RMB29,000,000 (equivalent to approximately HK\$32,912,000) for a term of 36 months;
- (viii) the equity transfer agreement dated 1 March 2023 and entered into among China Water HK (as purchaser), the Company (as purchaser), 廣東粵財中小企業股權投資基金合夥企業(有限合夥) (for transliteration purpose only, Guangdong Yuecai Small and Medium-sized Enterprises Equity Investment Fund Partnership (Limited Partnership)[#]) (“**Guangdong Yuecai**”) (as vendor) and 珠海橫琴依星伴月投資合夥企業(有限合夥) (for transliteration purpose only, Zhuhai Hengqin Yixingbanyue Investment Partnership (Limited Partnership)[#]) (“**Zhuhai Hengqin**”) (as vendor) pursuant to which Guangdong Yuecai has agreed to transfer 3.8451% of the equity interest in New China Water Nanjing to China Water HK at a consideration of RMB60,000,000 (equivalent to approximately HK\$68,286,000) plus 10% simple interest per annum and Zhuhai Hengqin has agreed to transfer 0.0269% of the equity interest in New China Water Nanjing to China Water HK at a consideration of RMB420,000 (equivalent to approximately HK\$478,000) plus 10% simple interest per annum;
- (ix) the finance lease agreement dated 8 March 2023 and entered into between Hainan Camda New Energy Co., Ltd. (海南康達新能源有限公司), an indirect non-wholly owned subsidiary of the Company (as lessee), and Sinopharm Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of landfill gas power generating facilities situated in Haikou City, the PRC, at the consideration of RMB7,000,000 (equivalent to approximately HK\$7,923,000) for a term of 36 months;
- (x) the transfer agreement and finance lease agreement both dated 23 March 2023 and entered into between 濟寧市海晟水務有限公司 (for transliteration purpose only, Jining City Haisheng Water Treatment Company Limited[#]) (“**Haisheng Water**”), an indirect non-wholly owned subsidiary of the Company (as lessee), and 廣東綠金融租賃有限公司 (for transliteration purpose only, Canton Greengold Financial Leasing Ltd.[#]) (“**Greengold Leasing**”) (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of sewage treatment equipment situated at Jining City, Shangdong Province, the PRC, at the consideration of RMB30,000,000 (equivalent to approximately HK\$34,260,000) for a term of 60 months;
- (xi) the transfer agreement and finance lease agreement both dated 8 June 2023 and entered into between 霍邱徽沼可再生能源科技有限公司 (for transliteration purpose only, Huoqiu Huizhao Renewable Energy Technology Co., Ltd.[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Jiangsu Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly

comprised of a power generating facility and fertiliser granulation equipment situated in Lu'An City, Anhui Province, the PRC, at the consideration of RMB8,200,000 (equivalent to approximately HK\$9,046,000) for a lease period commencing from 9 June 2023 to 9 June 2026;

- (xii) the equipment purchase agreement I dated 14 July 2023 and entered into between New China Water Nanjing, an indirect non-wholly-owned subsidiary of the Company, as purchaser, and Beijing Yisheng Environmental Technology Limited* (北京宜升環保能源科技有限公司), as vendor, in relation to purchase the six (6) set of biogas generators for a total consideration of RMB27.60 million (equivalent to approximately HK\$30.37 million) for the operation of the Group's principal business in renewable energy business segment;
- (xiii) the equipment purchase agreement II dated 18 July 2023 and entered into between New China Water Nanjing, an indirect non-wholly-owned subsidiary of the Company, as purchaser, and Beijing Aijian Tongyi Economic and Trade Development Co., Ltd* (北京愛建同益經貿發展有限責任公司), as vendor, in relation to purchase the five (5) set of biogas generators for a total consideration of RMB23.00 million (equivalent to approximately HK\$25.20 million) for the operation of the Group's principal business in renewable energy business segment;
- (xiv) the equipment purchase agreement III dated 19 July 2023 and entered into between New China Water Nanjing, an indirect non-wholly-owned subsidiary of the Company, as purchaser, and Shanghai Shuichungli Environmental Technology Co., Ltd* (上海水創利環境技術有限公司), as vendor, in relation to purchase the fifteen (15) set of biogas generators for a total consideration of RMB69.00 million (equivalent to approximately HK\$75.21 million) for the operation of the Group's principal business in renewable energy business segment;
- (xv) the finance lease agreement dated 2 August 2023 and entered into between 安丘市新中水環保科技有限公司 (for transliteration purpose only, Anqiu City New China Water Environmental Technology Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Unitrust International Financial Leasing Co., Limited (海通恒信國際融資租賃股份有限公司) (“**Haitong Leasing**”) (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of biogas and landfill gas power generating facilities situated in Anqiu City, the PRC, at the consideration of RMB20,000,000 (equivalent to approximately HK\$21,832,000) for a term of 36 months;
- (xvi) the finance lease agreement dated 2 August 2023 and entered into between 大唐華銀湘潭環保發電有限責任公司 (for transliteration purpose only, Datang Huayin Xiangtan Environmental Electricity Generation Company Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of biogas and landfill gas power generating facilities situated in Xiangtan City, the PRC, at the consideration of RMB20,000,000 (equivalent to approximately HK\$21,832,000) for a term of 36 months;

- (xvii) the finance lease agreement dated 2 August 2023 and entered into between 大唐華銀衡陽環保發電有限公司 (for transliteration purpose only, Datang Huayin Heng Yang Environmental Power Company Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of biogas and landfill gas treatment and power generating facilities situated in Hengyang County, the PRC, at the consideration of RMB15,000,000 (equivalent to approximately HK\$16,374,000) for a term of 36 months;
- (xviii) the finance lease agreement dated 2 August 2023 and entered into between 寶雞市易飛明達電力發展有限公司 (for transliteration purpose only, Baoji City Electric Power Development Co., Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of waste and landfill gas treatment and power generating facilities situated in Baoji City, the PRC, at the consideration of RMB15,000,000 (equivalent to approximately HK\$16,374,000) for a term of 36 months;
- (xix) the finance lease agreement dated 2 August 2023 and entered into between 梧州市中水新能源科技有限公司 (for transliteration purpose only, Wuzhou City China Water New Renewable Resources Company Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of biogas and landfill gas treatment and power generating facilities situated in Wuzhou City, the PRC, at the consideration of RMB10,000,000 (equivalent to approximately HK\$10,916,000) for a term of 36 months;
- (xx) the finance lease agreement dated 2 August 2023 and entered into between 湖南瀏陽新中水環保科技有限公司 (for transliteration purpose only, Hunan Liuyang New China Water Environmental Technology Limited[#]), an indirect non-wholly owned subsidiary of the Company (as lessee), and Haitong Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of biogas and landfill gas treatment and power generating facilities situated in Liuyang City, the PRC, at the consideration of RMB10,000,000 (equivalent to approximately HK\$10,916,000) for a term of 36 months;
- (xxi) the upgrading and modification contract dated 24 August 2023 and entered into between Haisheng Water (as principal) and 江蘇萬融工程科技有限公司 (for transliteration purpose only, Jiangsu Wanrong Construction Technology Company Limited[#]) (“**Wanrong Construction**”) (as contractor) in relation to the carrying out of the upgrading and modification work on the sewage treatment plant located in Jinxiang County, the PRC, which is owned and operated by Haisheng Water at the contract price of approximately RMB24.5 million (equivalent to approximately HK\$26.5 million);

- (xxii) the investment cooperation agreement dated 25 August 2023 and entered into between the People's Government of Boli County, Qitaihe City and Boli Zhongshui pursuant to which (i) Boli Zhongshui agreed to invest in the project (the "**Boli Project**") on the investment, development, construction and operation of the centralised comprehensive treatment center for agricultural waste with an investment amount of RMB100 million (equivalent to approximately HK\$108.3 million); and (ii) Boli Government agreed to assist Boli Zhongshui to implement the Boli Project, including, amongst other things, to assist Boli Zhongshui to acquire the relevant land and obtain other relevant government consents, approvals, permits and/or government subsidies;
- (xxiii) the upgrading and modification contract dated 12 September 2023 and entered into between 濟寧市海源水務有限公司 (for transliteration purpose only, Jining City Haiyuan Water Treatment Company Limited[#]), an indirect non-wholly owned subsidiary of the Company (as principal) and Wanrong Construction (as contractor) in relation to the carrying out of the upgrading and modification work on the sewage treatment plant located in Jinxiang County, the PRC at the contract price of approximately RMB32.3 million (equivalent to approximately HK\$34.8 million);
- (xxiv) the transfer agreement and finance lease agreement both dated 21 September 2023 and entered into between Haisheng Water (as lessee), and Greengold Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of certain designated equipment and facilities for sewage treatment systems situated in Jining City, Shandong Province, the PRC, at the consideration of RMB15,000,000 (equivalent to approximately HK\$16,146,000) for a term of 60 months;
- (xxv) the construction agreement dated 28 September 2023 and entered into between the Disposal Company (as principal) and 天工建設工程有限公司 (for transliteration purpose only, Tiangong Construction Engineering Co. Limited[#]) (as contractor) in relation to the carrying out of the construction of a water quality monitoring and control building at the contract price of approximately RMB106.7 million (equivalent to approximately HK\$114.9 million);
- (xxvi) the agreement dated 27 November 2023 and entered into between the People's Government of Zhangwu County of the PRC ("**Zhangwu Government**") and Victory Strategy Investment Limited (勝策投資有限公司) ("**Victory Strategy**"), an indirect wholly-owned subsidiary of the Company pursuant to which (i) Victory Strategy agreed to invest in the project (the "**Zhangwu Project**") on the collection, neutralisation and utilisation of the landfill gas produced at the Zhangwu Landfill for power generation with an aggregate investment amount of up to RMB51.6 million (equivalent to approximately HK\$56.5 million), and establish and operate a project company in the PRC for the purpose of implementing the Zhangwu Project; and (ii) Zhangwu Government agreed to assist the project company to implement the Zhangwu Project;

- (xxvii) the equity transfer agreement dated 25 March 2024 and entered into between Billion City Investments Limited, a direct wholly-owned subsidiary of the Company, as vendor, Haitian Water, as purchaser, and the Company, in relation to the sale and purchase of the entire equity interests in the Vendor for a total consideration of RMB270,000,000 (equivalent to approximately HK\$293,517,000);
- (xxviii) the transfer agreement and finance lease agreement both dated 5 July 2024 and entered into between 佛山市高明區華信污水處理有限公司 (for transliteration purpose only, Foshan City Gaoming District Huaxin Sewage Treatment Company Limited[#]) (as lessee), and Greengold Leasing (as lessor) in relation to the transfer of ownership and leaseback of leased assets, which mainly comprised of sewage treatment equipment situated at Foshan City, Guangdong Province, the PRC, at the consideration of RMB6,000,000 (equivalent to approximately HK\$6,467,000) for a term of 60 months; and
- (xxix) the Equity Transfer Agreement.

10. GENERAL

- (a) The company secretary of the Company is Ms. Chu Yin Yin, Georgiana, who is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The head office and principal place of business of the Company in Hong Kong is situated at Office H, 8/F, Kingston International Centre 19 Wang Chiu Road Kowloon Bay Hong Kong.
- (d) The Company's branch share registrar and transfer office in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (e) In the event of any inconsistency, the English texts of the circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

11. DOCUMENTS ON DISPLAY

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

- (i) the written consents referred to in the paragraph headed “8. Qualification and consent of Experts” of this appendix;
- (ii) the material contracts referred to in the paragraph headed “9. Material contracts” of this appendix;
- (iii) the Valuation Report issued by AVISTA Valuation Advisory Limited, the text of which is set out in Appendix II to this circular;
- (iv) the report from Crowe (HK) CPA Limited on the discounted cash flows in relation to the Valuation, the text of which is set out in Appendix III to this circular;
- (v) the letter from Kingston Corporate Finance Limited in relation to the Valuation, the text of which is set out in Appendix IV to this circular; and
- (vi) this circular.

NOTICE OF EGM



中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Water Industry Group Limited (the “**Company**”) will be held at Office H, 8/F., Kingston International Centre, 19 Wang Chiu Road, Kowloon Bay, Hong Kong on Monday, 9 September 2024 at 9:30 a.m., to consider and, if thought fit, pass, with or without amendments, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT:**

- (a) the conditional equity transfer agreement dated 26 July 2024 (the “**Equity Transfer Agreement**”, details of which are disclosed in the circular of the Company dated 23 August 2024 (the “**Circular**”) entered into between 宜春市市政發展有限公司 (for transliteration purpose only, Yichun Municipal Development Co., Ltd.#) (the “**Purchaser**”), as purchaser, Onfar International Limited (the “**Vendor**”), an indirect wholly-owned subsidiary of the Company, as vendor, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, 51% registered capital of 宜春水務集團有限公司 (for transliteration purpose only, Yichun Water Industry Group Co., Limited#) (the “**Disposal Company**”), an indirect non-wholly owned subsidiary of the Company, for a consideration of RMB195,000,000 (a copy of the Equity Transfer Agreement is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;
- (b) any one or more director(s) of the Company be and are hereby generally and unconditionally authorised to do all such acts and things, to sign and execute all such documents for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Equity Transfer Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Equity Transfer Agreement as they may in their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”

By the order of the Board
China Water Industry Group Limited
Mr. Zhu Yongjun
Chairman and Executive Director

Hong Kong, 23 August 2024

* *For identification purposes only*

NOTICE OF EGM

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

*Head office and principal place
of business in Hong Kong:*
Office H, 8/F.,
Kingston International Centre
19 Wang Chiu Road
Kowloon Bay
Hong Kong

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and, on a poll, vote in his stead. A member holding two or more Shares may appoint more than one proxy. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the EGM (i.e. no later than Saturday, 7 September 2024 at 9:30 a.m. or any adjournment thereof).
3. In the case of joint holders of a share (the "Share(s)") of the Company, any one of such persons may vote at the meeting either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. In order to qualify for entitlement to attend and vote at the EGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Tuesday, 3 September 2024.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning or extreme conditions caused by super typhoon is in effect in Hong Kong any time after 6:30 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.chinawaterind.com and on the website of the Stock Exchange at www.hkexnews.hk to notify shareholders of the date, time and venue of the rescheduled meeting.
7. As at the date of this notice, the Board comprises Mr. Zhu Yongjun (Chairman) and Ms. Chu Yin Yin Georgiana, all being executive Directors and Mr. Wong Siu Keung, Joe and Mr. Lam Cheung Shing, Richard, all being independent non-executive Directors.