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APPENDIX III

PROPERTY VALUATION REPORT

The following is the text of a letter, summary of valuations and valuation reports prepared for the purpose of incorporation in this document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values in existing state of the Properties of the Group in PRC as at 31 March 2021.



27/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

[•] 2021

The Board of Directors
HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED
(鴻承環保科技有限公司)

Yeyan Road North
Dadongzhuang Village North
Shahe Town, Laizhou
Yantai, Shandong Province
PRC

Dear Sirs,

INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with your instructions for us to value the “Properties” of HONGCHENG ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED (鴻承環保科技有限公司) (the “Company”) and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (“PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values in existing state of the Properties as at 31 March 2021 (the “Valuation Date”).

DEFINITION OF MARKET VALUE

Our valuations of each of the Properties represent its Market Value which in accordance with HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors (“HKIS”) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

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VALUATION BASIS & ASSUMPTIONS

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuations of the Properties situated in PRC, with reference to the legal opinion (the “PRC Legal Opinion”) of the Company’s legal advisers as to PRC law, Jingtian & Gongcheng (競天公誠律師事務所) (“PRC Legal Advisers”), we have prepared our valuation on the basis that transferable land use rights in respect of the Properties for its specific term at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and made reference to PRC Legal Opinion, regarding the title to the Properties and the interest in the Properties. In valuing the Properties, we have prepared our valuation on the basis that the owner has enforceable title to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

No allowance has been made in our valuations for any charges, pledges or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

METHOD OF VALUATION

In valuing the Properties which is held for owner-occupation by the Group in PRC, in the absence of relevant market data to arrive at the market value of the Properties by means of market-based evidence, we have valued the Properties by Depreciated Replacement Cost Approach which requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. The reported market values by Depreciated Replacement Cost Approach only apply to the whole of the Properties as a unique interest, and no piecemeal transaction of the Properties is assumed.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKIS Valuation Standards 2020.

SOURCE OF INFORMATION

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice on such matters as planning approvals or statutory notices, easements, construction cost, tenure, identification of the Properties, site and floor areas and all other relevant matters.

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Dimensions, measurements and areas included in the valuation reports are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

TITLE INVESTIGATION

We have been provided by the Group with copies of documents in relation to the current title to the Properties. However, we have not been able to conduct searches to verify the ownership of the Properties; we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the Properties in PRC and we have therefore made reference to the advice given by PRC Legal Advisers in PRC Legal Opinion.

SITE INSPECTION

Our Qingdao Office valuers, Hanson Han (10 years of valuation experience, China Real Estate Appraiser), and Winnie Zhang (3 years of valuation experience, China Real Estate Appraiser) have inspected the exterior and, wherever possible, the interior of the Properties in November 2020. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Moreover, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period.

Unless otherwise stated, we have not carried out on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all monetary amounts indicated herein our valuation are in Renminbi (RMB) which is the official currency of PRC.

MARKET UNCERTAINTY ALERT

The recent outbreak of the Novel Coronavirus (COVID-19) has brought high volatility to global financial markets and uncertainty to the property market. It is expected that property values will be very sensitive to development of the pandemic and changes in the financial markets. The extents of impact on different sectors of the market are different and the time for marketing and negotiating sale of a property will be longer than normal. There will be less certainty as to how long a valuation may sustain and property prices may fluctuate rapidly and materially over a short period of time. Our valuations of the Properties are valid only at the Valuation Date and any subsequent changes in market conditions as well as the resulting impacts on property values after the Valuation Date cannot be taken into account. If any party intends to make reference to our valuations when entering into any transaction, he must bear in mind the high market volatility during this period of time and that property values may or may not have changed since the Valuation Date.

OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the Properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We attach herewith the summary of valuations and valuation reports.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 28 years' experience in the valuation of properties in PRC.

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SUMMARY OF VALUATIONS

Property	Market value in existing state as at 31 March 2021 RMB	Interest attributable to the Group %	Market value in existing state as at 31 March 2021 attributable to the Group RMB
Properties held for owner-occupation by the Group in PRC			
1. An industrial development at Yeyan Road North Dadongzhuang Village North Shahe Town, Laizhou Yantai, Shandong Province PRC	286,200,000	100%	286,200,000
2. An industrial development at Lot No. 370683009-021-3003, Zhonglian Road North Yuanjia Village Jincheng Town, Laizhou Yantai, Shandong Province PRC	23,300,000	100%	23,300,000
Grand Total:	<u>309,500,000</u>		<u>309,500,000</u>

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Properties held for owner-occupation by the Group in PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2021
1. An industrial development at Yeyan Road North Dadongzhuang Village North Shahe Town, Laizhou Yantai, Shandong Province PRC	<p>The Property comprises an industrial complex erected on five parcels of industrial land with a total site area of 195,231.46 sq m. The buildings were completed during 2018 and 2020.</p> <p>The Property have a total gross floor area of 143,607.05 sq m. Please refer to Note (1) for details of the buildings.</p> <p>The Property is located at north of Yeyan Road, north of Dadongzhuang Village, Shahe Town, Yantai. Developments in vicinity comprise mainly industrial developments. The Property is for industrial uses, there is no environmental issues and litigation dispute.</p> <p>The land use rights of the Property have been granted for a term due to expire on 23 December 2064 for industrial use.</p>	<p>As at the Valuation Date, 2 single storey warehouses with a total gross floor area of 74,499.80 sq m were subject to two tenancies with the latest expiry date in December 2038 at a total annual rent of RMB8,000,000; the remaining portion of the Property was owner-occupied for industrial use.</p>	<p>RMB286,200,000 (RENMINBI TWO HUNDRED EIGHTY SIX MILLION TWO HUNDRED THOUSAND)</p> <p>(100% interest attributable to the Group: RMB286,200,000)</p>

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Notes:

- (1) According to 7 Real Estate Title Certificates, the land use rights and building ownership rights of the Property, have been granted to Shandong Hongcheng Mining (Group) Co., Ltd. (山東鴻承礦業(集團)有限公司) (“HC Mining”), an indirect wholly owned subsidiary of the Company:

Certificate No.	Land Uses	Expiry Date	Site Area (sq m)	No. of Storey of Building	Building Uses	Gross Floor Area (sq m)
Lu (2020) Laizhou Shi Budongchanquan No. 0015075 Hao	Industrial	23 December 2064	41,268.19	1	Warehouse	33,089.09
Lu (2020) Laizhou Shi Budongchanquan No. 0015076 Hao	Industrial	23 December 2064	50,407.16	1	Warehouse	41,410.71
Lu (2020) Laizhou Shi Budongchanquan No. 0015077 Hao	Industrial	23 December 2064	14,069.18	1	Others	159.33
Lu (2021) Laizhou Shi Budongchanquan No. 0004404 Hao	Industrial	23 December 2064		2	Office*	1,063.71
Lu (2021) Laizhou Shi Budongchanquan No. 0004403 Hao	Industrial	23 December 2064		2	Dormitory*	1,301.67
Lu (2021) Laizhou Shi Budongchanquan No. 0015078 Hao	Industrial	23 December 2064	17,730.64	1	Warehouse*	12,524.25
Lu (2021) Laizhou Shi Budongchanquan No. 0015081 Hao	Industrial	23 December 2064	71,756.29	1	Industrial/ Warehouse	31,074.89 22,983.40
			Total:			<u>143,607.05</u>
						<u>195,231.46</u>

* Those buildings are in the same site with site area of 17,730.64 sq m.

- (2) According to Business Licence No. 91370683573935532W dated 25 August 2020, HC Mining has been established as a limited company with a registered capital of RMB10,000,000.
- (3) According to PRC Legal Opinion:
- (i) HC Mining is the registered owner of the Property, it has the rights to possess, use, lease, transfer or legally dispose of the Property within the stipulated period of land use rights and under the relevant Chinese Laws;
- (ii) The land use rights and buildings under Real Estate Title Certificate No. Lu (2020) Laizhou Shi Budongchanquan No. 0015081 Hao is subject to a bank mortgage; if HC Mining transfer, lease, remortgage or dispose of the said mortgaged land use rights and buildings, it should obtain the consent of mortgagee; and

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(iii) HC Mining has 4 properties, with a total gross floor area of 1,985.69 sq m without real estate title certificates, located on its owned land. These 4 properties are not HC Mining’s production and business premises and office premises. These 4 properties are at risk of being ordered to be demolished within a time limit by the relevant competent authorities. According to the Company’s confirmation, HC Mining has not been ordered by the relevant government authorities to correct or demolish within a specified time for these properties, and have not been subject to confiscation of physical objects or fines. If the relevant government authorities order corrections or dismantling within a time limit, HC Mining will complete the dismantling and rectification within the prescribed time limit in accordance with the requirements of the relevant government authorities.

Our valuation has excluded these 4 properties without real estate title certificates in Note 3 (iii).

(4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and with reference to PRC Legal Opinion:

Real Estate Title Certificate	Yes (land and building)
Business Licence	Yes

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Properties held for owner-occupation by the Group in PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2021
2. An industrial development at Lot No. 370683009-021-3003, north of Zhonglian Road, Yuanjia Village, Jincheng Town, Laizhou City, Yantai, Shandong Province, the PRC	<p>The Property comprises an industrial complex erected on one parcel of industrial land with a total site area of 33,451.52 sq m. The buildings were completed in 2016.</p> <p>The Property have a total gross floor area of 15,407.44 sq m. Please refer to Note (2) for details of the buildings.</p> <p>The Property is located at the north of Yuanjia Village, Jincheng Town, Yantai. Developments in vicinity comprise mainly industrial developments. The Property is for industrial uses, there is no environmental issues and litigation dispute.</p> <p>The land use rights of the Property have been granted for a term due to expire on 25 November 2059 for industrial use.</p>	As at the Valuation Date, the Property was owner-occupied for industrial use.	<p>RMB23,300,000 (RENMINBI TWENTY THREE MILLION THREE HUNDRED THOUSAND)</p> <p>(100% interest attributable to the Group: RMB23,300,000)</p>

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Notes:

- (1) According to State-owned Land Use Rights Certificate, the land use rights of the Property, comprising a total site area of 33,451.52 sq m, have been granted to Laizhou Hongcheng Mining and Environment Development Co., Ltd. (萊州市鴻鉞礦業環保開發有限公司) (“HC Environmental”), an indirect wholly owned subsidiary of the Company:

Certificate No.	Lot No.	Uses	Expiry Date	Site Area (sq m)
Laizhou Guoyong (2014) No. 1170 Hao	370683009-021-3003	Industrial	25 November 2059	33,451.52

- (2) According to Building Ownership Certificate, the building ownership of the Property, comprising a total gross floor area of 15,407.44 sq m, have been vested in HC Environmental:

Certificate No.	No. of Storey of Building	Uses	Gross Floor Area (sq m)
Lai Fangquanzheng Jincheng Town Zi No. 091035 Hao	1	Industrial	1,390.50
Lai Fangquanzheng Jincheng Town Zi No. 091039 Hao	1	Industrial	8,585.68
Lai Fangquanzheng Jincheng Town Zi No. 091040 Hao	1	Warehouse	2,588.36
Lai Fangquanzheng Jincheng Town Zi No. 091968 Hao	4	Office	2,842.90
Total:			<u>15,407.44</u>

- (3) According to Business Licence No. 913706830924502786 dated 4 November 2020, HC Environmental has been established as a limited company with a registered capital of RMB20,000,000.

- (4) According to PRC Legal Opinion:

(i) HC Environmental is the registered owner of the Property, it has the rights to possess, use, lease, transfer or legally dispose of the Property within the stipulated period of land use rights and under the relevant Chinese Laws; and

(ii) The Property is subject to a bank mortgage; if HC Environmental transfer, lease, remortgage or dispose of the said mortgaged land use rights and buildings, it should obtain the consent of mortgagee.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and with reference to PRC Legal Opinion:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes