THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

YUNNAN WATER

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

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

(Stock code: 6839)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF 100% INTEREST IN THE TARGET COMPANY; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

The EGM of Yunnan Water Investment Co., Limited* will be held at 10:00 a.m. on Friday, 31 March 2023 at Conference Room 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. The proxy form for the EGM is enclosed herewith, and the same is also published on the website of the Hong Kong Exchanges and Clearing Limited (**www.hkexnews.hk**) and the website of the Company (**www.yunnanwater.com.cn**).

Whether or not you are able to attend the EGM, you are advised to complete and sign and return as soon as possible the enclosed proxy form in accordance with the instructions printed thereon. The proxy form for holders of H Shares should be returned to the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, located at 17/F, Far East Finance Centre 16 Harcourt Road, Hong Kong, and the proxy form for holders of Domestic Shares should be returned to the secretariat of the Board at 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC by no later than 24 hours before the time appointed for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM, or any adjourned meeting, in person if you so wish.

* *For identification purposes only*

24 February 2023

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

"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Beijing OriginWater"	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a limited liability company established in the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 300070)
"Board"	the board of Directors of the Company
"Caiyun International"	Caiyun International Investment Limited (彩雲國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of YHTH
"Company"	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, its H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839.HK)
"Consideration"	the consideration in the sum of RMB296,259,700 for the Disposal
"COVID-19"	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC, Hong Kong and worldwide since around January 2020
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Disposal Interest by Yunnan Water (Hong Kong) to Global Environment Investment in accordance with the terms and conditions of the Equity Transaction Agreement
"Disposal Interest"	100% interest in the Target Company legally and beneficially owned by Yunnan Water (Hong Kong)
"Domestic Share(s)"	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB
"EGM"	the extraordinary general meeting of the Company to consider and, if thought fit, approve, among other things, the Disposal
"Equity Transaction Agreement"	the sale and purchase agreement dated 3 November 2022, together with its supplemental agreement(s), entered into between Yunnan Water (Hong Kong) and Global Environment Investment in relation to the Disposal

"Global Environment Investment"	Global Environment Investment (HK) Limited, a limited liability company incorporated in Hong Kong
"Green Environmental Protection"	Yunnan Green Environmental Protection Industry Group Co., Ltd.* (雲南省綠色環保產業集團有限公司) (formerly known as Yunnan Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司)), a limited liability company established in the PRC, the Company's controlling shareholder
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"H Share(s)"	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars
"Kaiquan Changshu"	Kaifu Xinquan Water (Changshu) Co., Ltd* (凱發新泉水務(常熟)有限公司), a limited liability company established in the PRC and one of the Project Companies
"Kaiquan Dafeng"	Kaifu Xinquan Water (Dafeng) Co., Ltd* (凱發新泉水務(大豐)有限公司), a limited liability company established in the PRC and one of the Project Companies
"Kaiquan Taizhou"	Kaifu Xinquan Water (Taizhou) Co., Ltd* (凱發新泉水務(泰州)有限公司), a limited liability company established in the PRC and one of the Project Companies
"Kaiquan Tiantai"	Kaifu Xinquan Water (Tiantai) Co., Ltd* (凱發新泉水務(天台)有限公司), a limited liability company established in the PRC and one of the Project Companies
"Latest Practicable Date"	22 February 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Project Companies"	Kaiquan Changshu, Kaiquan Taizhou, Kaiquan Tiantai, Kaiquan Dafeng
"Remaining Group"	the Group, excluding the Target Company and the Project Companies
"RMB"	Renminbi, the lawful currency of PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Shanghai Assets Exchange"	Shanghai United Assets and Equity Exchange Co., Ltd.* (上海聯合產權交易所有限公司), an institution authorised by the Shanghai Municipal State-owned Assets Supervision and Administration Commission to transact assets and equity of state-owned enterprises under the Shanghai Municipal Government
"Share(s)"	the Domestic Shares and/or H Shares
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Yunshui Technology Co., Ltd (雲水科技有限公司), a company incorporated in the British Virgin Islands with limited liability
"Target Group"	the Target Company and its subsidiaries
"Valuation Report"	the valuation report of the Target Company as of 31 December 2021 prepared by the Valuer, full text of which is set out in Appendix V to this circular
"Valuer"	Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司)
"YHTH"	Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (formerly known as Yunnan Metropolitan Construction Investment Co., Ltd.* (雲南省城市建設投資集團有限公司)), a limited liability company established in the PRC and the sole shareholder of YEPI, Yunnan Green Environmental Protection Industry Group Co., Ltd.* (雲南省綠色環保產業集團有限公司), a limited liability company incorporated in the PRC, the Company's controlling shareholder
"Yunnan Water (Hong Kong)"	Yunnan Water (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability
"%"	percentage

* *For identification purposes only*

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

(a joint stock limited liability company incorporated in the People's Republic of China)
(Stock code: 6839)

Executive Directors:
Mr. Yu Long *(Vice Chairman, General Manager)*
Mr. Zhou Zhimi

Non-executive Directors:
Mr. Mei Wei *(Chairman)*
Mr. Dai Richeng
Mr. Chen Yong
Mr. Liu Hui

Independent Non-executive Directors:
Mr. Liu Shuen Kong
Mr. Zhong Wei
Mr. Zhou Beihai

Registered office and principal place of business in the PRC:
Yunnan Water
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Principal place of business in Hong Kong:
Suites 3110–11, 31/F, Tower 1
The Gateway, Harbour City
25 Canton Road, Tsim Sha Tsui, Kowloon
Hong Kong

24 February 2023

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DISPOSAL OF 100% INTEREST IN THE TARGET COMPANY; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company dated 6 May 2022, 3 November 2022, 24 November 2022, 15 December 2022, 30 December 2022, 20 January 2023 and 15 February 2023 in relation to the Disposal.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal; and (ii) notice of the EGM and other information prescribed by the Listing Rules.

A. THE DISPOSAL

On 3 November 2022 (after trading hours), Yunnan Water (Hong Kong), a wholly-owned subsidiary of the Company (as vendor) and Global Environment Investment (as purchaser) entered into the Equity Transaction Agreement, pursuant to which, Yunnan Water (Hong Kong) has agreed to sell, and Global Environment Investment has agreed to acquire, the Disposal Interest at the Consideration of RMB296,259,700. Upon completion of the Disposal, Yunnan Water (Hong Kong) will cease to have any interest in the Target Company.

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

Date: 3 November 2022 (after trading hours)

Parties:
(i) Yunnan Water (Hong Kong) (as vendor); and

(ii) Global Environment Investment (as purchaser)

Global Environment Investment is an indirect wholly-owned subsidiary of SIIC ENVIRONMENT HOLDINGS LTD. (上海實業環境控股有限公司), a company incorporated in Singapore with limited liability, the shares of which are listed on the main board of The Singapore Exchange Securities Trading Limited (stock code: BHK) and the Main Board of the Stock Exchange (stock code: 807).

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

Disposal Interest

Under the Disposal, Yunnan Water (Hong Kong) has agreed to sell, and Global Environment Investment has agreed to acquire, 100% interest in the Target Company.

Consideration and Basis of Determining the Consideration

The Company has entrusted Shanghai Assets Exchange to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The Consideration of the Disposal is RMB296,259,700, which was determined and equivalent to the appraised value of the Disposal Interest as at 31 December 2021 by an independent PRC valuer using the asset-based approach and income approach.

Since the Company is a state-owned enterprise, the Disposal Interest constitutes a state-owned asset, and the Disposal is required to undergo the public tender process through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of state-controlled assets. The Disposal has been carried out through and in accordance with the relevant rules of the Shanghai Assets Exchange. The Company submitted the tender notice to the Shanghai Assets Exchange setting out, inter alia, (i) the minimum consideration, which shall not be lower than the appraised value of the Disposal Interest; (ii) the principal terms of the bidding; and (iii) descriptions and qualifications of the potential bidders. Qualification conditions cannot generally be imposed on potential bidders for the transfer of state-owned assets unless they are not directive to specific bidders nor in violation of the principle of fair competition. Upon acceptance of the tender notice from the Company, the Shanghai Assets Exchange arranged for publication of the transfer information for a period of not less than 20 working days from the date of the tender notice. During the publication period, qualified bidders would indicate their intention to purchase the Disposal Interest and register themselves as interested bidders. Upon the expiry of the publication period, the Shanghai Assets Exchange notified the Company of the identity of the successful bidder (being the highest bidder). Since Global Environment Investment was the only qualified bidder in the public tender, the Company entered into the Equity Transaction Agreement with Global Environment Investment.

The consideration of the Disposal was determined and equivalent to the appraised value of Disposal Interest as at 31 December 2021 by the Valuer. The Disposal Interest represents 100% interests in the Target Company, the major assets of which comprise its equity interests held in the Project Companies. The Valuer has adopted the income approach in the valuation of the Project Companies as at 31 December 2021 based on the following computation formula:

(1) Calculation of corporate free cash flows

Corporate free cash flows in the forecast period = net profit after tax + depreciation and amortization + finance cost after tax – capital expenditure – changes in working capital

(2) Calculation of weighted average capital cost

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the corporate free cash flows and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is:

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

Wherein: E: Market value of equity;

D: Market value of debt;

K_e: Cost of equity capital;

K_d: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital (Ke) is calculated according to the CAPM model commonly used in the world. The calculation formula is:

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

Wherein: R_f: Risk-free rate of return;

MRP: Market risk premium;

β: System risk coefficient of equity;

R_c: Enterprise-specific risk adjustment coefficient.

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

The main business value of the appraised entity refers to the value of the operating assets of the enterprise.

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

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

Wherein: P: Value of operating assets of the enterprise as at the Valuation Reference Date;

$FCFF_i$: Expected corporate free cash flows of the enterprise in the coming i year after the Valuation Reference Date;

$FCFF_n$: Corporate free cash flows of the enterprise during the recovery period;

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

n: Income period;

i: The coming i year of the forecast period.

(4) Scope of non-operating and surplus assets

In the model, the scope of non-operating and surplus assets includes surplus assets and non-operating assets, accordingly, the value of other assets is equal to the sum of surplus assets value and non-operating assets value.

① *Surplus assets and non-operating assets*

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

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

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

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

(5) Scope of non-operating and surplus liabilities

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

(6) Calculation of market value of entire shareholders' equity

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

Market value of entire shareholders' equity = total value of the enterprise – value of interest-bearing debts

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

For further details of the appraised values of the Project Companies, please refer to the extracts of the valuation reports of the Project Companies as contained in Appendix VI to this circular.

The Directors consider that the assumptions and inputs as adopted by the Valuer are fair and reasonable and consider that there is unlikely to have any material change in the assumptions and inputs which are likely to materially affect the valuations of Project Companies and the Disposal Interest. Furthermore, sensitivity analysis is not mandatorily required for the purpose of the valuations of the Project Companies and the Disposal Interest under the relevant applicable laws and regulations. As such, sensitivity analysis is not prepared and included in the valuation reports of the Project Companies and the Disposal Interest.

Payment Method of the Consideration

Global Environment Investment shall pay the Consideration in a one-off payment of RMB296,259,700 to the designated bank account of Yunnan Water (Hong Kong) within 3 working days from the effective date of the Equity Transaction Agreement. The Consideration was paid by Global Environment Investment on 3 November 2022.

Equity Transfer and Registration

Yunnan Water (Hong Kong) and Global Environment Investment shall cooperate to complete the transfer of the interest of the Target Company and attend to the change of registration procedures within 60 working days from the effective date of the Equity Transaction Agreement. The registration of transfer of interest has been completed in November 2022.

During the period from the transaction reference date (i.e. 31 December 2021) to the completion of the transfer of the interest of the Target Company, Yunnan Water (Hong Kong) is obliged to maintain good management of the Target Company and its shareholder's rights and assets.

Effective Date of the Equity Transaction Agreement

The Equity Transaction Agreement shall be effective from the date when it is signed and sealed by the legal representatives of both parties.

Completion of the Disposal

Completion of the Disposal is conditional on the obtaining and completion of all necessary authorization, approval and internal company decision-making procedures. The Disposal is conditional on approval by the Company's shareholders in general meeting.

PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

The valuation of the Disposal Interest (the "**Valuation**") was conducted by Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) (the "**Valuer**"), an independent PRC valuer, using the asset-based approach. Major assets of the Target Company comprise its equity interests held in the Project Companies which have been accounted for as the long-term equity investment of the Target Company, and the income approach was on the other hand adopted in the valuation of the Project Companies. Accordingly, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

For the purpose of complying with Rules 14.60A and 14.62 of the Listing Rules, the details of the principal assumptions, including commercial assumptions, upon which the Valuation was based are as follows, details of which shall be referred to the Valuation Report contained in Appendix V to this circular:

Basic Assumptions

1. Transaction Assumption

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

2. Open Market Assumption

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

3. Asset Going-concern Assumption

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

4. Corporate Going-concern Assumption

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

General Assumptions

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

2. Except those laws, rules and regulations already enacted or enacted but not yet enforced by the government of the appraised entity's principal place of business and the region in which its business is conducted on or before the valuation reference date, there are no significant changes in such laws, rules and regulations that may materially and adversely affect the appraised entity and its business operation during the income period.

3. From the valuation reference date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material adverse effects on the business condition of the appraised entity during the income period (considering the changes to the currency exchange rate between the valuation reference date and the valuation report date).

4. From the valuation reference date, there are no material adverse effects on the appraised entity caused by other force majeure factors beyond the control of human and unforeseeable factors.

5. The appraised entity and all assets of the appraised entity will continue to be used in accordance with the current purpose and manner in the income forecast period.

6. The accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the valuation reference date in all material respects.

7. The appraised entity and the business operation of the appraised entity will fulfill all legal and regulatory requirements necessary to conduct its business during the income forecast period.

8. The management of the appraised entity is diligent and responsible, with adequate management skills and good professional ethics; and during the income forecast period, subject to the key management personnel and technical staff on the valuation reference date, there are no significant changes that may affect the business operation of the appraised entity, that the management team will develop stably, and there are no significant changes to the management policies that may affect the business operation of the appraised entity.

9. The information provided by the principal and the appraised entity are true, complete, reliable, with no reason to suspect that any material information has been withheld or omitted, and it is assumed that defected matters or contingent matters that may affect valuation result may not be detected even if the valuer has performed all necessary valuation procedures.

10. There will be no litigation, pledge or guarantee etc., that will cause material adverse effected to the business performance of the appraised entity during the income forecast period.

Specific Assumptions

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

2. The valuation does not include any effects/changes on the value of the appraised entity caused by its investment of outbound/foreign investment after the valuation reference date.

3. The net profit (after taxation) and the revenue of the appraised entity will remain consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period.

4. The turnover of receivables and payables shall remain consistent during the income forecast period in comparison to the settlement history, where no significant difference in default during the income forecast period in comparison to the settlement history.

5. The cash inflow and cash outflow will occur regularly during the income forecast period, and not to recognize revenue during a single point in time in a financial year.

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

INFORMATION OF THE COUNTERPARTY

Global Environment Investment was a company incorporated in Hong Kong with limited liability and, to the best knowledge of the Directors, is primarily engaged in investment holding. Global Environment Investment is an indirect wholly-owned subsidiary of SIIC ENVIRONMENT HOLDINGS LTD. (上海實業環境控股有限公司), a company incorporated in Singapore with limited liability, the shares of which are listed on the main board of The Singapore Exchange Securities Trading Limited (stock code: BHK) and the Main Board of the Stock Exchange (stock code: 807), and is principally engaged in wastewater treatment, water supply, sludge treatment, solid waste incineration and other environment-related businesses.

INFORMATION OF THE GROUP

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

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in the British Virgin Islands with limited liability, and is a wholly-owned subsidiary of Yunnan Water (Hong Kong), which is in turn a wholly-owned subsidiary of the Company. The principal business of the Target Company is investment holding. The Target Company holds the entire equity interests in each of the Project Companies, the principal businesses of which are set out below:

Project Company	Principal Business
Kaiquan Changshu	Operation of wastewater treatment plant project in Changshu City, Jiangsu Province
Kaiquan Taizhou	Operation of wastewater treatment plant project in Taizhou City, Jiangsu Province
Kaiquan Tiantai	Operation of wastewater treatment plant project in Tiantai County, Taizhou City, Zhejiang Province
Kaiquan Dafeng	Operation of water supply plant project in Dafeng District, Yancheng City, Jiangsu Province

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the key audited financial information of the Target Company for the two financial years ended 31 December 2020 and 31 December 2021 prepared according to the PRC accounting standards.

	For the year ended/As at	
	31 December 2020	**31 December 2021**
	RMB million (audited)	*RMB million (audited)*
Operating revenue	104.6	117.3
Profit before tax	39.4	15.9
Profit after tax	28.7	9.8
Total assets	595.4	604.1
Total liabilities	335.0	457.8
Net assets	260.4	146.3

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon completion of the Disposal, Yunnan Water (Hong Kong) will cease to have any equity interest in the Target Company and the Target Company will cease to be a subsidiary to be accounted for in the financial results of the Company.

The Group is expected to record an unaudited loss on the Disposal of approximately RMB11.7 million. Such unaudited loss is estimated based on gross proceeds from the Disposal of approximately RMB296.3 million add the amount payable of approximately RMB123.9 million (the "**Account Payable**") as a result of the intra-group restructuring with respect to the Target Company and the Project Companies in February 2022 pursuant to which, the Company transferred the entire interests of each of the Project Companies to the Target Company and less the net asset value of the Target Company of approximately RMB419.1 million as at 31 December 2021, and after deducting the tax attributable to the Disposal in the amount of approximately RMB11.2 million and the expenses directly attributable to the Disposal in aggregate of approximately RMB1.6 million. Global Environment Investment will use its best endeavours to procure the Target Company to settle the Account Payable as soon as possible. The Directors expect that the Target Company will settle the Account Payable by cash not later than 20 August 2023. Please note that the actual loss recorded by the Group from the Disposal will be subject to the book value of the Target Company accounted for in the financial statements of the Group upon completion of the Disposal, and may therefore be different from the above amount.

The Disposal is estimated to result in a decrease of approximately RMB227.3 million in the total assets of the Group, a decrease of approximately RMB206.4 million in total liabilities of the Group, and a decrease of approximately RMB20.9 million in net assets of the Group, taking into account the net cash generated from the Disposal of approximately RMB294.7 million less the net asset of the Target Group as at 30 September 2022 of approximately RMB304.4 million and the withholding tax for the Disposal of approximately RMB11.2 million.

The net proceeds from the Disposal, after deducting the expenses directly attributable thereto, will amount to approximately RMB283.5 million. It is intended that the net proceeds from the Disposal will be used for the Group's working capital, of which (i) approximately RMB154.4 million will be allocated for staff cost for about three months; (ii) approximately RMB62.0 million will be allocated for fuel costs for production for about three months; and (iii) approximately RMB67.1 million will be allocated for material costs for production for about three months.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Based on the strategic development and the internal management needs of the Company, the Company decides to proceed the Disposal. The Directors believe that the Disposal will alleviate the ongoing financial difficulties of the Group and lower the debt level and asset-liability ratio of the Company. Furthermore, taking into account its current financial conditions, the Group might have difficulties in the follow-up investment and financing to maintain the licenses for the operations of the Project Companies.

As disclosed in the 2021 annual report of the Company, for the purpose of resolving the going concern issue which resulted in the disclaimer of opinion in the audit report for the consolidated financial statements of the Company for the year ended 31 December 2021, the Group has taken and will take certain plans and measures to mitigate the liquidity pressure and to improve its financial position, which include, among others, divesting certain of the Group's concession projects and construction projects. The Disposal is among the mitigating measures to enhance liquidity and capital structure of the Group and reduce overall financing expenses of the Group.

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

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal is more than 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is subject to reporting, announcement, circular and shareholders' approval requirements.

B. EGM

The Company will convene the EGM to consider and approve, among other things, the Disposal. The notice convening the EGM has been despatched to the Shareholders on 24 February 2023.

Any shareholder and his or her or its associates with a material interest in the resolution will abstain from voting on the resolution on the Disposal at the EGM. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting at the EGM.

C. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transaction Agreement and the Disposal contemplated thereunder are on normal commercial terms and are fair and reasonable and 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 Transaction Agreement and the Disposal contemplated thereunder.

D. ADDITIONAL INFORMATION

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

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

* *For identification purposes only*

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2021 and six months ended 30 June 2022 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yunnanwater.com.cn.

(i) Annual report of the Company for the year ended 31 December 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802729.pdf) (the "**2019 Annual Report**")

(ii) Annual report of the Company for the year ended 31 December 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042802606.pdf) (the "**2020 Annual Report**")

(iii) Annual report of the Company for the year ended 31 December 2021 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0530/2022053001087.pdf) (the "**2021 Annual Report**")

(iv) interim report of the Company for the six months ended 30 June 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0929/2022092900891.pdf) (the "**2022 Interim Report**")

WORKING CAPITAL

As at 31 December 2022, the Group's current liabilities exceeded its current assets by approximately RMB6 billion (unaudited). In order to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress but not limited to, the followings:

(i) For borrowings which will be maturing in the next 12 months from the date of this circular, the Group is actively negotiating with banks/lenders before they fall due to secure their renewals so as to ensure that the necessary funds will be in place to meet the Group's working capital and financial requirements in the future will continue to be met;

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

(iii) The Group has plans to divest certain of the Group's concession projects and construction projects; and

(iv) The Directors are of the view that they have the ability to manage the progress of the projects from time to time and defer the payment schedule of the borrowings in these projects, if necessary.

If the Group fails to successfully implement the above measures, the Group will not have sufficient working capital for at least 12 months from the date of this circular.

Except for the potential impacts of the matters described above, in the absence of unforeseen circumstances, on the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, the directors of the Company are optimistic that the Group will be able to meet in full the Group's financial obligations as they fall due for the twelve months from the date of this circular.

INDEBTEDNESS

As at the close of business on 31 December 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as summarised below:

Borrowings

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

As at the close of business on 31 December 2022, the Group had total outstanding borrowings of approximately RMB32,077 million, further details of which are set out below:

	As at 31 December 2022 *RMB'000*
Non-current	
Long-term bank borrowings	
— Secured	13,715,121
— Unsecured	3,248,466
	16,963,587
Corporate bonds and other borrowings	
— Secured	422,194
— Unsecured	9,585,295
	10,007,489
Current	
Short-term bank borrowings	
— Secured	19,810
— Unsecured	2,520
	22,330

	As at 31 December 2022 RMB'000
Current portion of long-term bank borrowings	
— Secured	93,739
— Unsecured	6,930
	100,669
Current portion of corporate bonds and other borrowings	
— Unsecured	1,533,821
Amount due to Shareholders	
— Caiyun Investment	1,091,720
— YEPI	1,045,167
— YHTH	1,312,703
	3,449,590
Total	**32,077,486**

As at the close of business on 31 December 2022, the Group had borrowings of approximately RMB14,251 million in aggregate which were secured by pledge of the Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment and intangible assets and the Company's investments in subsidiaries, and approximately RMB298 million and RMB12,088 million of the Group's borrowings were guaranteed by PRC local government and related parties respectively. The amount due to Shareholders of approximately RMB3,450 million of the Group are unsecured, bear interest and repayable with agreed terms.

Lease liabilities

As at the close of business on 31 December 2022, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately RMB36.2 million in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 December 2022 being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

MATERIAL ADVERSE CHANGE

The Group recorded a loss attributable to the ordinary shareholders of the Company of approximately RMB494.0 million for the six months ended 30 June 2022, compared to a loss of approximately RMB311.6 million for the corresponding period in 2021. The Board believes that the change in results for the six months ended 30 June 2022 is primarily attributable to the decrease in the consolidated gross profit margin of the Group's solid waste and other business segments and the decrease in the revenue from construction services due to the resurgence of pandemic in China in the first half of 2022. For details, please refer to the profit warning announcement of the Company dated 22 August 2022 and the interim report of the Company for the six months ended 30 June 2022 published on 29 September 2022.

The Directors confirm that save as disclosed above, there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will take various measures to reduce debt ratio. Firstly, the Group will optimize the financing structure, and reduce the Company's financing pressure and liquidity risks by gradually adjusting the long-term and short-term debt structure. Secondly, the Group will strengthen the debt collection work, focus on ensuring the amount and time limit of remittances for projects in operation, to increase operating cash flow. Thirdly, the Group will also promote the asset disposal work in a timely manner, make overall arrangements for the partial disposal of scattered assets, integrate and optimize assets while recovering cash to reduce the asset-liability ratio, and improve management efficiency and operational quality.

The Group will continue to focus on operations to improve quality and efficiency, refine management standards, and promote energy conservation and consumption reduction. To this end, the Group will fully implement the scientific budgeting system, and reasonably calculate the operation indicators of each project based on the current operating conditions. The Group will also further strengthen checking and eliminate the unstable factors and hidden dangers of exceeding standards in the operation process, so as to realize the stable operation of the Group's projects in operation.

The Group will continue to enhance its innovation and sustainable development. According to the current market demand, the Group will improve the current core technologies, especially strengthen the development and promotion of our low-temperature adiabatic pyrolysis and carbonization technology of organic solid waste, and contribute to the reduction, harmlessness, stabilization and resource utilization of solid organic waste treatment. At the same time, the Group will continue to focus on new fields of resources and environment, reserve key core technologies, and lay a solid foundation for future development.

Looking forward, the Group will continue to adhere to the development goal of "based in Yunnan, covering the nation and going global, striving to be a leading integrated environmental services provider at the municipal level (立足雲南、面向全國、走向國際，致力成為領先的城鎮環境綜合服務商)", and overcome the current challenges and difficulties, grasp the industry development trend, improve the Group's operational capability, technical strength and core competitiveness, and create more returns on investment for its shareholders.

UNAUDITED FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below are the unaudited consolidated balance sheets of Yunshui Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") as at 31 December 2019, 2020 and 2021 and 30 September 2022 and the related unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022 and explanatory notes (collectively referred to as the "**Financial Information**"). The Financial Information has been prepared by the Directors of the Company on the basis set out in note 2 to the Financial Information and in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Financial Information is prepared by the Directors solely for the purpose of inclusion in this circular in connection with the Disposal (as defined in note 1 to the unaudited consolidated financial information of the Target Group). Moore Stephens CPA Limited was engaged to review the Financial Information of the Target Group set out in pages II-2 to II-9 in accordance with Hong Kong Standard on Review Engagements 2400 (Revised), "Engagements to Review Historical Financial Statements" and with reference to Practice Note 750, "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal", issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion.

Based on their review, nothing has come to their attention that causes them to believe that the Financial Information of the Target Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 below.

Unaudited Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended 31 December 2019, 2020 and 2021 and for the nine months ended 30 September 2021 and 2022

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	111,517	116,611	148,723	116,488	115,197
Cost of sales	(58,654)	(62,714)	(94,396)	(72,457)	(83,590)
Gross profit	52,863	53,897	54,327	44,031	31,607
Other income	1,258	3,418	5,981	1	3,566
Other (losses)/gains — net	(1,164)	3,390	(55,405)	31	783
Administrative expenses	(10,912)	(6,458)	(7,101)	(5,030)	(7,857)
Reversal of impairment losses/ (impairment losses) on financial assets	2,500	(65)	(303)	(303)	—
Operating profit/(loss)	44,545	54,182	(2,501)	38,730	28,099
Finance income	94	4,175	1,371	374	—
Finance expenses	(7,835)	(6,943)	(18,796)	(8,751)	(13,882)
Finance costs — net	(7,741)	(2,768)	(17,425)	(8,377)	(13,882)
Profit/(loss) before income tax	36,804	51,414	(19,926)	30,353	14,217
Income tax expenses	(11,021)	(12,812)	(2,753)	(811)	(5,057)
Profit/(loss) and total comprehensive income/(expenses) for the year/period	25,783	38,602	(22,679)	29,542	9,160

Unaudited Consolidated Balance Sheets
At 31 December 2019, 2020 and 2021 and 30 September 2022

	As at 31 December			As at 30 September
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	121	133	125	150
Receivables under service concession arrangements	163,886	182,134	198,803	191,922
Intangible assets	425,674	462,437	404,037	382,449
Trade and other receivables	19	19	19	19
Deferred income tax assets	1,146	1,611	1,972	1,995
	590,846	646,334	604,956	576,535
Current assets				
Receivables under service concession arrangements	6,441	8,674	8,295	8,295
Inventories	386	411	426	360
Trade and other receivables	116,012	168,005	180,673	112,323
Cash and cash equivalents	23,653	3,603	4,488	11,994
	146,492	180,693	193,882	132,972
Total assets	737,338	827,027	798,838	709,507

Unaudited Consolidated Balance Sheets (Continued)
At 31 December 2019, 2020 and 2021 and 30 September 2022

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY				
Share capital	151,180	151,180	151,180	—*
Other reserves	112,647	112,647	112,647	139,880
Retained earnings	139,398	178,000	155,321	164,481
Total equity	403,225	441,827	419,148	304,361
LIABILITIES				
Non-current liabilities				
Borrowings	135,497	90,400	75,900	68,650
Deferred income	919	919	919	919
Deferred tax liabilities	27,240	28,389	23,204	22,751
Provision	12,471	13,082	13,723	14,227
	176,127	132,790	113,746	106,547
Current liabilities				
Contract liabilities	6	6	6	6
Borrowings	15,800	34,500	28,000	26,000
Trade and other payables	136,792	213,377	230,227	268,973
Current income tax liabilities	5,388	4,527	7,711	3,620
	157,986	252,410	265,944	298,599
Total liabilities	334,113	385,200	379,690	405,146
Total equity and liabilities	737,338	827,027	798,838	709,507

* *Less than RMB1,000*

Unaudited Consolidated Statements of Changes in Equity

For the years ended 31 December 2019, 2020 and 2021 and for the nine months ended 30 September 2021 and 2022

	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	151,180	112,647	113,615	377,442
Total comprehensive income for the year				
Profit for the year	—	—	25,783	25,783
Balance at 31 December 2019 and 1 January 2020	151,180	112,647	139,398	403,225
Total comprehensive income for the year				
Profit for the year	—	—	38,602	38,602
Transactions with owners in their capacity as owners				
Issue of share	—*	—	—	—*
Balance at 31 December 2020 and 1 January 2021	151,180	112,647	178,000	441,827
Total comprehensive expenses for the year				
Loss for the year	—	—	(22,679)	(22,679)
Balance at 31 December 2021 and 1 January 2022	151,180	112,647	155,321	419,148
Total comprehensive income for the period				
Profit for the period	—	—	9,160	9,160
Transactions with owners in their capacity as owners				
Effect of Reorganisation (Note)	(151,180)	27,233	—	(123,947)
Balance at 30 September 2022	—*	139,880	164,481	304,361
Balance at 1 January 2021	151,180	112,647	178,000	441,827
Total comprehensive income for the period				
Profit for the period	—	—	29,542	29,542
Balance at 30 September 2021	151,180	112,647	207,542	471,369

* *Less than RMB1,000*

Note: Upon the completion of the Reorganisation (as defined in note 1), the difference between the par value of the share of the Target Company (as defined in note 1) with the nominal value of equity interests in the Target Group (as defined in note 1) amounting to RMB151,180,000 was transferred from share capital to other reserve and the consideration of RMB123,947,000 as disclosed in note 1 was reflected in the consolidated financial statements of the Target Group as amount due to a fellow subsidiary included in trade and other payables.

Unaudited Consolidated Statements of Cash Flows

For the years ended 31 December 2019, 2020 and 2021 and for the nine months ended 30 September 2021 and 2022

	Year ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities					
Cash (used in)/generated from operations	(28,529)	23,702	45,142	26,153	31,847
Income tax paid	(2,090)	(12,989)	(5,115)	(4,572)	(9,624)
Interest paid	(3,684)	(4,307)	(18,107)	(8,000)	(5,402)
Net cash (outflow)/inflow from operating activities	(34,303)	6,406	21,920	13,581	16,821
Cash flows from investing activities					
Payments for property, plant and equipment	(57)	(59)	(35)	(14)	(65)
Net cash outflow from investing activities	(57)	(59)	(35)	(14)	(65)
Cash flows from financing activities					
Proceeds from borrowings	36,499	37,500	13,500	10,000	—
Repayments of borrowings	(15,779)	(63,897)	(34,500)	(23,250)	(9,250)
Net cash inflow/(outflow) from financing activities	20,720	(26,397)	(21,000)	(13,250)	(9,250)
Net (decrease)/increase in cash and cash equivalents	(13,640)	(20,050)	885	317	7,506
Cash and cash equivalents at beginning of the financial year/period	37,293	23,653	3,603	3,603	4,488
Cash and cash equivalents at end of year/period	23,653	3,603	4,488	3,920	11,994

Notes to the Unaudited Consolidated Financial Information of the Target Group

For the years ended 31 December 2019, 2020 and 2021 and for the nine months ended 30 September 2021 and 2022

1. GENERAL INFORMATION

Yunshui Technology Co., Ltd. (the "**Target Company**") was incorporated in British Virgin Islands with limited liability on 26 August 2020. The entire equity interests of Kaifu Xinquan Water (Changshu) Co., Ltd ("**Kaiquan Changshu**"), Kaifu Xinquan Water (Dafeng) Co., Ltd ("**Kaiquan Dafeng**"), Kaifu Xinquan Water (Taizhou) Co., Ltd ("**Kaiquan Taizhou**") and Kaifu Xinquan Water (Tiantai) Co., Ltd ("**Kaiquan Tiantai**") (collectively referred to as the "**Project Companies**") were transferred to the Target Company at a consideration of approximately RMB123,947,000 in February 2022 (the "**Reorganisation**") and the Project Companies became the wholly-owned subsidiaries of the Target Company upon completion of the Reorganisation. The Target Company's immediate holding company is Yunnan Water (Hong Kong) Company Limited ("**Yunnan Water (Hong Kong)**"), a company incorporated in Hong Kong with limited liability, and its intermediate holding company is Yunnan Water Investment Co., Limited (the "**Company**"), a joint stock limited liability company with its H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015. The Company is a State-owned enterprise. The Target Company and its subsidiaries (collectively referred to as the "**Target Group**") are principally engaged in the investment and operation of urban water supply and drainage infrastructure.

On 3 November 2022, Yunnan Water (Hong Kong) and Global Environment Investment (HK) Limited ("**Global Environment Investment**"), an indirect wholly-owned subsidiary of SIIC Environment Holdings Ltd., state-owned enterprise, entered into a sale and purchase agreement, pursuant to which, Yunnan Water (Hong Kong) has agreed to sell, and Global Environment Investment has agreed to acquire, the 100% interest in the Target Company at a consideration of RMB296,259,700 (the "**Disposal**").

The particulars of the subsidiaries of the Target Company as at 31 December 2019, 2020 and 2021 and 30 September 2022 are set out below:

Name of subsidiary	Place of establishment/ incorporation	Particulars of paid up capital	Target Group's effective interest	Principal activities
Kaiquan Changshu	People's Republic of China ("**PRC**")	USD8,000,000	100%	Operation of wastewater treatment plant project in Changshu City, Jiangsu Province
Kaiquan Dafeng	PRC	USD2,640,000	100%	Operation of water supply plant project in Dafeng District, Yancheng City, Jiangsu Province
Kaiquan Taizhou	PRC	USD3,200,000	100%	Operation of wastewater treatment plant project in Taizhou City, Jiangsu Province
Kaiquan Tiantai	PRC	USD5,600,000	100%	Operation of wastewater treatment plant project in Tiantai County, Taizhou City, Zhejiang Province

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The unaudited financial information before Reorganisation is presented by aggregating the financial information of the Target Group, under the common control of the Company. Transactions and balances between entities included within the Target Group have been eliminated. All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on combination.

The Financial Information of the Target Group comprising the unaudited consolidated balance sheets of the Target Group as at 31 December 2019, 2020 and 2021 and 30 September 2022, and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 and for the nine months ended 30 September 2021 and 2022 (the "**Relevant Periods**"), and explanatory notes (the "**Financial Information**") has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and solely for the purpose of inclusion in this circular to be issued by the Company in connection with the Disposal.

The Financial Information of the Target Group for the Relevant Periods is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information has been prepared in accordance with the same accounting policies as those adopted by the Company and its subsidiaries (collectively referred to as the "**Group**") in preparation of the consolidated financial statements of the Group for those respective years or periods. The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), *Presentation of Financial Statements*, or an interim financial report as defined in Hong Kong Accounting Standard 34, Interim Financial Reporting, issued by the HKICPA and should be read in connection with the relevant published annual reports or interim reports of the Company for the Relevant Periods.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") upon the completion of the disposal of 100% equity interest of Yunshui Technology Co., Ltd. (the "**Target Company**") (the "**Disposal**") (the "**Remaining Group**"), comprising the unaudited pro forma consolidated balance sheet as at 30 June 2022, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021 and related notes, which have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effects of the completed Disposal on the financial position of the Group as at 30 June 2022 as if the Disposal had been completed on 30 June 2022, and the Group's financial performance and cash flows for the year ended 31 December 2021 as if both the Disposal had been completed on 1 January 2021. Details of the Disposal are set out in the "**Letter from the Board**" contained in the circular dated 24 February 2023 (the "**Circular**") issued by the Company.

The unaudited pro forma financial information has been prepared for illustrative purposes only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its hypothetical nature, the unaudited pro forma financial information of the Remaining Group may not give a true picture of the financial position, financial performance or cash flows of the Remaining Group following the completion of the Disposal. Further, the unaudited pro forma financial information of the Remaining Group does not purport to predict the Group's future financial position, financial performance or cash flows.

The unaudited pro forma financial information of the Remaining Group has been prepared based upon the consolidated balance sheet of the Group as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2021, which have been extracted from the published interim report of the Group dated 30 September 2022 for the period ended 30 June 2022 and annual report of the Group dated 29 April 2022 for the year ended 31 December 2021 after making pro forma adjustments as summarised in the accompanying notes that are directly attributable to the Disposal, factually supportable and clearly identified as to those have no continuing effect on the Group.

1. Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2022

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
ASSETS					
Non-current assets					
Property, plant and equipment	4,281,440	(150)	—	—	4,281,290
Investment properties	22,960	—	—	—	22,960
Right-of-use assets	332,571	—	—	—	332,571
Receivables under service concession arrangements	6,475,384	(191,922)	—	—	6,283,462
Contract assets	11,807,099	—	—	—	11,807,099
Intangible assets	13,453,620	(382,449)	—	—	13,071,171
Investments accounted for using the equity method	1,080,757	—	—	—	1,080,757
Financial asset at fair value through other comprehensive income	4,675	—	—	—	4,675
Trade and other receivables	90,305	(19)	—	—	90,286
Prepayments	1,352,180	—	—	—	1,352,180
Deferred income tax assets	916,236	(1,995)	—	—	914,241
	39,817,227	(576,535)	—	—	39,240,692
Current assets					
Receivables under service concession arrangements	75,084	(8,295)	—	—	66,789
Inventories	124,233	(360)	—	—	123,873
Contract assets	675,609	—	—	—	675,609
Trade and other receivables	7,028,159	(112,323)	187,582	—	7,103,418
Prepayments	146,054	—	—	—	146,054
Restricted cash	184,722	—	—	—	184,722
Cash and cash equivalents	470,304	(11,994)	—	294,651	752,961
	8,704,165	(132,972)	187,582	294,651	9,053,426
Total assets	48,521,392	(709,507)	187,582	294,651	48,294,118

1. Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2022 (Continued)

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
EQUITY					
Share capital	1,193,213	—	—	—	1,193,213
Other reserves	2,801,581	(139,880)	—	27,233	2,688,934
Retained earnings	(425,101)	(164,481)	—	256,203	(333,379)
	3,569,693	(304,361)	—	283,436	3,548,768
Perpetual capital instruments	1,622,300	—	—	—	1,622,300
Non-controlling interests	1,889,808	—	—	—	1,889,808
Total equity	7,081,801	(304,361)	—	283,436	7,060,876
LIABILITIES					
Non-current liabilities					
Borrowings	8,835,562	(68,650)	—	—	8,766,912
Trade and other payables	2,832,850	—	—	—	2,832,850
Lease liabilities	31,620	—	—	—	31,620
Deferred income	842,872	(919)	—	—	841,953
Deferred tax liabilities	1,321,372	(22,751)	—	—	1,298,621
Provision	523,982	(14,227)	—	—	509,755
	14,388,258	(106,547)	—	—	14,281,711
Current liabilities					
Borrowings	20,844,554	(26,000)	—	—	20,818,554
Trade and other payables	5,587,279	(268,973)	187,582	—	5,505,888
Lease liabilities	14,622	—	—	—	14,622
Contract liabilities	98,708	(6)	—	—	98,702
Current income tax liabilities	506,170	(3,620)	—	11,215	513,765
	27,051,333	(298,599)	187,582	11,215	26,951,531
Total liabilities	41,439,591	(405,146)	187,582	11,215	41,233,242
Total equity and liabilities	48,521,392	(709,507)	187,582	294,651	48,294,118

2. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the year ended 31 December 2021

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5*	*Note 6*	*Note 7*	
Revenue	5,280,743	(148,723)	35,611	—	5,167,631
Cost of sales	(3,964,179)	94,396	(35,611)	—	(3,905,394)
Gross profit	1,316,564	(54,327)	—	—	1,262,237
Other income	54,080	(5,981)	—	—	48,099
Other gains/(losses) — net	164,333	55,405	—	(63,281)	156,457
Selling expenses	(48,374)	—	—	—	(48,374)
Administrative expenses	(650,674)	7,101	—	—	(643,573)
Impairment losses on financial and contract assets	(419,125)	303	—	—	(418,822)
Operating profit	416,804	2,501	—	(63,281)	356,024
Finance income	10,932	(1,371)	—	—	9,561
Finance expenses	(1,537,186)	18,796	—	—	(1,518,390)
Finance costs — net	(1,526,254)	17,425	—	—	(1,508,829)
Share of profit of investments accounted for using equity method	78,517	—	—	—	78,517
Loss before income tax	(1,030,933)	19,926	—	(63,281)	(1,074,288)
Income tax expenses	(24,321)	2,753	—	(11,215)	(32,783)
Loss for the year	(1,055,254)	22,679	—	(74,496)	(1,107,071)
Other comprehensive expense					
Items that may be reclassified to profit or loss					
— Exchange differences on translation of foreign operation	(22,147)	—	—	—	(22,147)
Total comprehensive expense for the year, net of tax	(1,077,401)	22,679	—	(74,496)	(1,129,218)

2. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the year ended 31 December 2021 (Continued)

	The Group	**Pro forma adjustments**			**The Remaining Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5*	*Note 6*	*Note 7*	
(Loss)/profit attributable to:					
— Ordinary shareholders of the Company	(1,001,876)	22,679	—	(74,496)	(1,053,693)
— Holders of perpetual capital instruments	113,587	—	—	—	113,587
— Non-controlling interests	(166,965)	—	—	—	(166,965)
	(1,055,254)	22,679	—	(74,496)	(1,107,071)
Total comprehensive (expense)/income attributable to:					
— Ordinary shareholders of the Company	(1,024,023)	22,679	—	(74,496)	(1,075,840)
— Holders of perpetual capital instruments	113,587	—	—	—	113,587
— Non-controlling interests	(166,965)	—	—	—	(166,965)
	(1,077,401)	22,679	—	(74,496)	(1,129,218)

3. Unaudited pro forma consolidated statements of cash flows of the Remaining Group for the year ended 31 December 2021

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5*	*Note 7*	*Note 8*	
Cash flows from operating activities					
Loss before income tax	(1,030,933)	19,926	(63,281)	—	(1,074,288)
Adjustments for:					
Impairment losses on financial assets	419,125	(303)	—	—	418,822
Impairment Losses on intangible assets	198,155	(55,441)	—	—	142,714
Impairment Losses on prepayments	39,267	—	—	—	39,267
Depreciation of investment properties	845	—	—	—	845
Amortisation of intangible assets	429,120	(20,127)	—	—	408,993
Depreciation of property, plant and equipment	210,675	(43)	—	—	210,632
Depreciation of right-of-use assets	22,688	—	—	—	22,688
Share of profit of investments accounted for using the equity method	(78,517)	—	—	—	(78,517)
Other (gains)/losses — net	(164,333)	—	63,281	—	(101,052)
Finance costs — net	1,530,806	(18,748)	—	—	1,512,058
Change in working capital:					
Inventories	(7,705)	15	—	—	(7,690)
Contract assets	(1,933,239)	—	—	—	(1,933,239)
Trade and other receivables and receivables under concession arrangements	(1,133,369)	46,429	—	—	(1,086,940)
Prepayments	6,552	—	—	—	6,552
Trade and other payables	(246,490)	(16,850)	—	—	(263,340)
Contract liabilities	(807)	—	—	—	(807)
Deferred income	133,892	—	—	—	133,892
Cash used in operations	(1,604,268)	(45,142)	—	—	(1,649,410)
Income tax paid	(47,362)	5,115	—	—	(42,247)
Interest paid	(1,170,150)	18,107	—	—	(1,152,043)
Net cash outflow from operating activities	(2,821,780)	(21,920)	—	—	(2,843,700)

3. Unaudited pro forma consolidated statements of cash flows of the Remaining Group for the year ended 31 December 2021 (Continued)

	The Group	Pro forma adjustments			The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5*	*Note 7*	*Note 8*	
Cash flows from investing activities					
Payments for property, plant and equipment, right-of-use assets, land use rights and other intangible assets	(199,072)	35	—	—	(199,037)
Proceeds from disposal of an associate	30,000	—	—	—	30,000
Proceeds from disposal of subsidiaries	77,593	—	—	291,048	368,641
Others — net	(2,002)	—	—	—	(2,002)
Net cash outflow from investment activities	(93,481)	35	—	291,048	197,602
Cash flows from financing activities					
Proceeds from borrowings	16,635,978	(13,500)	—	—	16,622,478
Repayments of borrowings	(15,955,384)	34,500	—	—	(15,920,884)
Proceed from issuance of perpetual capital instruments	1,622,300	—	—	—	1,622,300
Repayments of perpetual capital instruments	(500,000)	—	—	—	(500,000)
Distributions paid to holders of perpetual capital instruments	(113,587)	—	—	—	(113,587)
Dividends paid	(21,166)	—	—	—	(21,166)
Dividend paid to non-controlling interests	(1,825)	—	—	—	(1,825)
Capital injection by non-controlling interests	5,210	—	—	—	5,210
Others — net	(26,229)	—	—	—	(26,229)
Net cash outflow from financing activities	1,645,297	21,000	—	—	1,666,297
Net decrease in cash and cash equivalents	(1,269,964)	(885)	—	291,048	(979,801)
Cash and cash equivalents at beginning of the financial year	1,697,688	(3,603)	—	3,603	1,697,688
Exchange gain on cash and cash equivalents	703	—	—	—	703
Cash and cash equivalents at end of year	428,427	(4,488)	—	294,651	718,590

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. The Group's financial information is based upon the consolidated financial information of Yunnan Water Investment Co., Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2021, which has been derived from the Company's published annual report for the year then ended and the consolidated financial information of the Group for the six months ended 30 June 2022, which has been derived from the Company's published interim report for the period then ended.

2. These adjustments represent the exclusion of assets and liabilities of Yunshui Technology Co., Ltd. (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") to be disposed of as at 30 September 2022 assuming the Group upon the completion of the disposal of the 100% issued share capital of Target Company (the "**Disposal**") was completed on 30 June 2022. The amounts have been extracted from the unaudited financial information of the Target Group as at 30 September 2022 as set forth in Appendix II of this circular.

3. These adjustments represent the reinstatement of intragroup balance between the Target Group and the Remaining Group, which have been eliminated in the consolidated financial statements of the Group for the nine months ended 30 September 2022, and would not have been eliminated if the Disposal had been completed on 30 June 2022.

4. These adjustments assume the total consideration payable by Global Environment Investment (the "**Purchaser**") to the Remaining Group for the acquisition of the 100% equity interest in the Target Company (the "**Consideration**") is satisfied in cash in the amount as shown below, as if the Disposal had been completed on 30 June 2022:

		RMB'000
Consideration		296,260
Less: Estimated expenses directly attributable to the Disposal	*Note*	(1,609)
Estimated cash flow from the Disposal		294,651

The actual amounts of the adjusted Consideration and the gain/loss on the Disposal recorded in "retained profits" can only be determined at the date of completion of the sale and purchase agreement and the Disposal contemplated thereunder ("**Completion**"), which may be substantially different from the estimated amounts used in the preparation of the unaudited pro forma financial information.

Note: The estimated expenses directly attributable to the Disposal represents costs and expenses directly incurred for the Disposal of RMB1,609,000 which will be borne by the Group and are assumed to be settled in cash.

The estimated tax effect of the Disposal amounted to RMB11,215,000 represents the PRC enterprise income tax calculated based on a tax rate of 10% on taxable disposal gain arising from the transfer of equity interests in the Project Companies (as defined in Appendix II) to the Purchaser.

5. These adjustments represent the exclusion of the results and cash flows of the Target Group to be disposed of for the year ended 31 December 2021 assuming the Disposal was completed on 1 January 2021. The amounts have been extracted from the unaudited financial information of the Target Group for the year ended 31 December 2021 as set forth in Appendix II of this circular.

6. The adjustment represents related party transactions between the Target Group and the Remaining Group, which have been eliminated in the consolidated financial statements of the Group for the year ended 31 December 2021, and would not have been eliminated if the Disposal had been completed on 1 January 2021.

7. These adjustments represent the pro forma loss on the Disposal to profit or loss assuming the Disposal had taken place on 1 January 2021:

	Notes	*RMB'000*
Consideration		296,260
Add: The Target Group's consideration payable to the Remaining Group upon the Reorganisation	(i)	123,947
Less: Net assets of the Target Group as at 1 January 2021	(ii)	(441,827)
Less: Goodwill allocated to the Target Group as at 1 January 2021	(iii)	(40,052)
Less: Estimated expenses directly attributable to the Disposal		(1,609)
Estimated loss on the Disposal before taxation		(63,281)
Estimated income tax on the Disposal calculated at the applicable tax rate	(iv)	(11,215)
Estimated loss on the Disposal after taxation		(74,496)

Notes

(i) The Target Group's consideration payable to the Remaining Group arising from the Reorganisation completed in February 2022 is also considered in the calculation of pro forma loss on the Disposal, which better reflects the relevant impact of the terms and conditions of the Disposal.

(ii) The amounts have been extracted from the unaudited financial information of the Target Group as at 1 January 2021 as set forth in Appendix II of this circular.

(iii) The amount represents the carrying amount of goodwill as at 1 January 2021, arising from acquisition of the Target Group in prior year.

(iv) The estimated tax effect of the Disposal amounted to RMB11,215,000 represents the PRC enterprise income tax calculated based on a tax rate of 10% on taxable disposal gain arising from the transfer of equity interests in the Project Companies to the Purchaser.

8. These adjustments represent the estimated cash flow from the Disposal of the Target Group assuming the Disposal had taken place on 1 January 2021:

	Notes	*RMB'000*
Consideration		296,260
Less: Estimated expenses directly attributable to the Disposal	(i)	(1,609)
Estimated cash inflow arising on the Disposal		294,651
Less: Cash and bank balance of the Target Group	(ii)	(3,603)
Net cash inflow from the Disposal		291,048

Notes

(i) The estimated expenses directly attributable to the Disposal represents costs and expenses directly incurred for the Disposal of RMB1,609,000 which will be borne by the Group and are assumed to be settled in cash.

(ii) The amount has been extracted from the unaudited financial information of the Target Group as at 1 January 2021 as set forth in Appendix II of this circular.

9. All the above adjustments in respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows above are not expected to have a continuing effect on the Remaining Group.

10. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 30 September 2022.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

MOORE

Independent Reporting Accountants' Assurance Report on the Compilation of Unaudited Pro Forma Financial Information

To the Directors of Yunnan Water Investment Co., Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated balance sheet as at 30 June 2022, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Part A of Appendix III to the circular dated 24 February 2023 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the very substantial disposal in relation to the disposal of 100% equity interest in Yunshui Technology Co., Ltd. (the "**Disposal**") on the Group's financial position as at 30 June 2022 and the Group's financial performance and cash flows for the year ended 31 December 2021 as if the Disposal had taken place at 30 June 2022 and 1 January 2021, respectively. As part of this process, information about the Group's financial position as at 30 June 2022 has been extracted by the directors of the Company from the Group's unaudited consolidated financial statement for the period ended 30 June 2022, on which no review report has been published and the Group's financial performance and cash flows for the year ended 31 December 2021 has been extracted by the directors of the Company from the Group's consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

The audit report for the consolidated financial statements of the Company for the year ended 31 December 2021 contained a disclaimer of opinion as the auditors of the Company were unable to form an opinion as to whether the going concern basis of preparation was appropriate, as more fully described in the annual report of the Company for the year ended 31 December 2021 published on 29 April 2022. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on

The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2022 or 1 January 2021 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

Except for the disclaimer of opinion as to whether the going concern basis of preparation was appropriate, in our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544
Hong Kong, 24 February 2023

Set out below is the management discussion and analysis on the continuing operations of the Remaining Group for the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022 prepared on the basis that the Target Company is not consolidated, and the Company has no ownership interest in the Target Company. The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Company for the reporting periods. For further financial information of the Group, please refer to the section headed "Management Discussion and Analysis" of the Company's annual report for the years ended 31 December 2021, 2020 and 2019 and interim report for the nine months ended 30 September 2022, respectively.

The Remaining Group is one of the leading integrated service providers in the urban environmental protection industry in China. The Remaining Group mainly adopts the Build-Operate-Transfer (the "**BOT**"), Build-Own-Operate (the "**BOO**"), Transfer-Operate-Transfer (the "**TOT**"), Transfer-Own-Operate (the "**TOO**"), Build and Transfer (the "**BT**"), Engineering-Procurement-Construction (the "**EPC**"), Rehabilitate-Operate-Transfer (the "**ROT**"), Operation and Maintenance (the "**O&M**") and licensed operation models to provide customized and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as system integration services of core technologies to customers. The Remaining Group's businesses are carried out in China and the Southeast Asian countries, the Remaining Group's principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others.

For the year ended 31 December 2019

Business review

Wastewater Treatment Projects

As at 31 December 2019, the Remaining Group had a total of 124 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 21 TOT projects, 2 ROT projects and 23 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,380,400 tonnes.

Water Supply Projects

As at 31 December 2019, the Remaining Group had a total of 66 concession water supply projects with total daily treatment capacity of approximately 2,445,100 tonnes, including 15 BOO projects, 35 BOT projects, 11 TOT projects and 5 municipal environment comprehensive treatment projects.

Solid Waste Treatment Projects

As at 31 December 2019, the Remaining Group had 21 solid waste treatment projects with total annual treatment capacity of 3,571,000 tonnes.

Construction and Sales of Equipment

The Remaining Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2019, the Remaining Group had a total of 11 BT projects and a total of 11 EPC projects.

The Remaining Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Remaining Group's production is membrane. Most of the membrane products are produced by the own plant of the Remaining Group.

Others

During the year ended 31 December 2019, the Remaining Group also undertook O&M projects for wastewater treatment, water supply and solid waste treatment facilities owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2019, the Remaining Group had 30 O&M projects.

Financial review

Revenue of the Remaining Group increased from approximately RMB6,172.1 million for the year ended 31 December 2018 to approximately RMB6,426.5 million for the year ended 31 December 2019, representing an increase of approximately 4.1%.

In respect of the business segments of the Remaining Group, revenue from wastewater treatment decreased by 10.7% from approximately RMB3,216.3 million for the year ended 31 December 2018 to approximately RMB2,871.7 million for the year ended 31 December 2019. Revenue from water supply increased by approximately 5.0% from approximately RMB1,167 million for the year ended 31 December 2018 to approximately RMB1,225.8 million for the year ended 31 December 2019. Revenue from solid waste treatment increased by approximately 102.2% from RMB749.0 million for the year ended 31 December 2018 to approximately RMB1,514.6 million for the year ended 31 December 2019. Revenue from construction and sales of equipment decreased by approximately 26.2% from approximately RMB967.9 million for the year ended 31 December 2018 to approximately RMB714.6 million for the year ended 31 December 2019. Revenue from other business increased by 38.8% from approximately RMB71.9 million for the year ended 31 December 2018 to approximately RMB99.8 million for the year ended 31 December 2019.

During the year ended 31 December 2019, the Remaining Group's audited profit attributable to ordinary shareholders of the Company amounted to approximately RMB372.4 million (for the year ended 31 December 2018: approximately RMB383.2 million).

Liquidity and financial resources

As at 31 December 2019, the cash and cash equivalents of the Remaining Group amounted to approximately RMB2,444,782,000.

As at 31 December 2019, the Remaining Group had borrowings of approximately RMB21,467.6 million (31 December 2018: approximately RMB16,803.9 million). As at 31 December 2019, the Remaining Group had unsecured borrowings of approximately RMB5,110.8 million for current portion and RMB7,628.0 million for non-current portion (31 December 2018: total approximately RMB11,576.7 million), and secured borrowings of approximately RMB1,292.8 million for current portion and RMB7,436.0 million for non-current portion (31 December 2018: total approximately RMB5,227.2 million). As at 31 December 2019, the Group has fixed rate borrowings amounting to approximately RMB13,794.8 million (31 December 2018: RMB11,554.4 million).

The Remaining Group's gearing ratio (calculated as net debt divided by total capital) was approximately 70.03% as at 31 December 2019.

As at 31 December 2019, the Remaining Group had capital commitment outstanding of approximately RMB12,654,955,000.

The Remaining Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments, material acquisitions and disposals

Save as disclosed in the 2019 Annual Report of the Company, the Remaining Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the year ended 31 December 2019.

Employees and Remuneration Policy

As at 31 December 2019, the Remaining Group employed 6,666 employees. During the year ended 31 December 2019, staff cost was approximately RMB598.7 million. The Remaining Group strives to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees is determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Remaining Group also provides external and internal training programs for its employees.

The Remaining Group did not experience any significant labour disputes which caused any material impact on its normal business operations during the year ended 31 December 2019.

Pledge of Assets

As at 31 December 2019, assets pledged as security for borrowings included the Remaining Group's receivables under service concession arrangements, contract assets, right-of-use assets, land use rights, property, plant and equipment, intangible assets and the Company's investments in subsidiaries and a joint venture, with carrying value of RMB8,737.7 million (31 December 2018: approximately RMB5,278.6 million).

Foreign Exchange Risk

The Remaining Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Remaining Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Remaining Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars ("**US$**"), and Hong Kong dollars ("**HKD**") (together "**Non-functional Currencies**"). The Remaining Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Remaining Group's financial position and results of operations.

Contingent Liabilities

As at 31 December 2019, the Remaining Group did not have any significant contingent liabilities.

For the year ended 31 December 2020

Business review

Wastewater treatment projects

As at 31 December 2020, the Remaining Group had a total of 128 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 20 TOT projects, 2 ROT projects and 28 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,568,800 tonnes.

Water supply projects

As at 31 December 2020, the Remaining Group had a total of 68 concession water supply projects with total daily treatment capacity of approximately 2,480,100 tonnes, including 15 BOO projects, 36 BOT projects, 11 TOT projects and 6 municipal environment comprehensive treatment projects,

Solid waste treatment projects

As at 31 December 2020, the Remaining Group had 23 solid waste treatment projects with total annual treatment capacity of 4,045,500 tonnes.

Construction and sales of equipment

The Remaining Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2020, the Remaining Group had a total of 11 BT projects and a total of 13 EPC projects.

The Remaining Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Remaining Group's production is membrane. Most of the membrane products are produced by the own plant of the Remaining Group.

Others

During the year ended 31 December 2020, the Remaining Group also undertook O&M projects for wastewater treatment and water supply owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2020, the Remaining Group had 29 O&M projects.

Financial review

Revenue of the Remaining Group increased from approximately RMB6,426.5 million for the year ended 31 December 2019 to approximately RMB8,280.0 million for the year ended 31 December 2020, representing an increase of approximately 28.8%. In respect of the business segments of the Remaining Group, revenue from wastewater treatment significant increased from approximately RMB2,871.7 million for the year ended 31 December 2019 to approximately RMB5,175.9 million for the year ended 31 December 2020. Revenue from water supply decreased by approximately 20.9% from approximately RMB1,225.8 million for the year ended 31 December 2019 to approximately RMB969.6 million for the year ended 31 December 2020. Revenue from solid waste treatment decreased by approximately 11.1% from RMB1,514.6 million for the year ended 31 December 2019 to approximately RMB1,346.7 million for the year ended 31 December 2020. Revenue from construction and sales of equipment decreased by approximately 13.1% from approximately RMB714.6 million for the year ended 31 December 2019 to approximately RMB621.1 million for the year ended 31 December 2020. Revenue from other business increased from approximately RMB99.8 million for the year ended 31 December 2019 to approximately RMB166.7 million for the year ended 31 December 2020.

For the year ended 31 December 2020, the Remaining Group's audited profit attributable to ordinary Shareholders amounted to approximately RMB184.5 million (for the year ended 31 December 2019: approximately RMB372.4 million).

Liquidity and financial resources

As at 31 December 2020, the cash and cash equivalents of the Remaining Group amounted to approximately RMB1,694,085,000.

As at 31 December 2020, the Remaining Group had borrowings of approximately RMB27,416.9 million (31 December 2019: approximately RMB21,467.6 million). As at 31 December 2020, the Remaining Group had unsecured borrowings of approximately RMB15,263.4 million (31 December 2019: approximately RMB12,738.8 million), and secured borrowings of approximately RMB12,153.5 million (31 December 2019: approximately RMB8,728.8 million). As at 31 December 2020, the Remaining Group has fixed rate borrowings amounting to approximately RMB17,108.1 million (31 December 2019: RMB13,794.8 million). The Remaining Group's borrowings were denominated as follows:

The gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was approximately 78.21% as at 31 December 2020.

As at 31 December 2020, the Remaining Group had capital commitment outstanding of approximately RMB12,780,090,000.

The Remaining Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments, material acquisitions and disposals

Save as disclosed in the 2020 Annual Report of the Company, the Remaining Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the year ended 31 December 2020.

Employees and Remuneration Policy

As at 31 December 2020, the Remaining Group employed 7,007 employees (31 December 2019: 6,666). During the year ended 31 December 2020, staff cost was approximately 581.7 million (for the year ended 31 December 2019: 598.7 million). The Remaining Group strives to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees is determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Remaining Group also provides external and internal training programs for its employees.

The Remaining Group did not experience any significant labour disputes which caused any material impact on its normal business operations during the year ended 31 December 2020.

Pledge of Assets

As at 31 December 2020, borrowing of approximately RMB12,067 million (31 December 2019: approximately RMB8,737.7 million) were secured by the Remaining Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment, intangible assets and the Company's investments in subsidiaries.

Foreign Exchange Risk

The Remaining Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Remaining Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Remaining Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars ("**US$**"), Euro ("**EUR**") and Hong Kong dollars ("**HKD**") (together "**Non-functional Currencies**"). The Remaining Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Remaining Group's financial position and results of operations.

Contingent Liabilities

As at 31 December 2020, the Remaining Group did not have any significant contingent liabilities.

For the year ended 31 December 2021

Wastewater Treatment Projects

As at 31 December 2021, the Remaining Group had a total of 134 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 27 TOT projects, 1 ROT project and 28 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,553,400 tonnes.

Water Supply Projects

As at 31 December 2021, the Remaining Group had a total of 67 concession water supply projects with total daily treatment capacity of approximately 2,449,100 tonnes, including 15 BOO projects, 35 BOT projects, 11 TOT projects and 6 municipal environment comprehensive treatment projects.

Solid Waste Treatment Projects

As at 31 December 2021, the Remaining Group had 24 solid waste treatment projects with total annual treatment capacity of approximately 4,081,900 tonnes.

Construction and Sales of Equipment

The Remaining Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2021, the Group had a total of 10 BT projects and a total of 13 EPC projects.

The Remaining Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Remaining Group's production is membrane products. Most of the membrane products are produced by the own plant of the Remaining Group.

Others

During the year ended 31 December 2021, the Remaining Group also undertook O&M projects for wastewater treatment and water supply owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2021, the Remaining Group had 26 O&M projects.

Financial review

Revenue of the Remaining Group decreased from approximately RMB8,280 million for the year ended 31 December 2020 to approximately RMB5,132 million for the year ended 31 December 2021, representing a decrease of approximately 38%.

In respect of the business segments of the Remaining Group, revenue from wastewater treatment decreased from approximately RMB5,175.9 million for the year ended 31 December 2020 to approximately RMB3,242.3 million for the year ended 31 December 2021. Revenue from water supply decreased by approximately 5.3% from approximately RMB969.6 million for the year ended 31 December 2020 to approximately RMB918 million for the year ended 31 December 2021. Revenue from solid waste treatment decreased by approximately 44.0% from RMB1,346.7 million for the year ended 31 December 2020 to approximately RMB754.8 million for the year ended 31 December 2021. Revenue from construction and sales of equipment decreased by approximately 77.9% from approximately RMB621.1 million for the year ended 31 December 2020 to approximately RMB137.1 million for the year ended 31 December 2021. Revenue from other business decreased from approximately RMB166.7 million for the year ended 31 December 2020 to approximately RMB79.8 million for the year ended 31 December 2021.

During the year ended 31 December 2021, the Remaining Group's audited loss attributable to ordinary Shareholders amounted to approximately RMB979.2 million (for the year ended 31 December 2020: profit attributable to ordinary Shareholders amounted to approximately RMB184.5 million).

Liquidity and financial resources

As at 31 December 2021, the cash and cash equivalents of the Remaining Group amounted to approximately RMB423,939,000.

As at 31 December 2021, the Remaining Group had borrowings of approximately RMB28,551.6 million (31 December 2020: approximately RMB27,416.9 million). As at 31 December 2021, the Remaining Group had unsecured borrowings of approximately RMB14,634.7 million (31 December 2020: approximately RMB15,263.4 million), and secured borrowings of approximately RMB13,916.9 million (31 December 2020: approximately RMB12,153.5 million). The Remaining Group's borrowings were denominated as follows:

The gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was approximately 79.67% as at 31 December 2021.

As at 31 December 2021, the Remaining Group had capital commitments outstanding of approximately RMB11,963,708,000 (2020: RMB12,780,090,000).

The Remaining Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments, material acquisitions and disposals

Save as disclosed in the 2021 Annual Report of the Company, the Remaining Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2021.

Employees and Remuneration Policy

As at 31 December 2021, the Remaining Group employed 6,998 employees (31 December 2020: 7,007). During the year ended 31 December 2021, staff cost was approximately RMB658.3 million (for the year ended 31 December 2020: RMB581.7 million). The Remaining Group strives to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees is determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Remaining Group also provides external and internal training programs for its employees.

The Remaining Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Pledge of Assets

As at 31 December 2021, borrowing of approximately RMB13,837.9 million (31 December 2020: approximately RMB12,067 million) were secured by the Remaining Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment, intangible assets and the Company's investments in subsidiaries.

Foreign Exchange Risk

The Remaining Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Remaining Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Remaining Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars ("**US$**"), Euro ("**EUR**") and Hong Kong dollars ("**HKD**") (together "**Non-functional Currencies**"). The Remaining Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Remaining Group's financial position and results of operations.

Contingent Liabilities

Affected by the cases of financial leasing contract dispute, some assets of the Remaining Group were taken property preservation measures by the relevant courts from December 2021 to January 2022. The above assets relate to the equity interest of some subsidiaries/associates held by the Remaining Group and some bank accounts of the Remaining Group. According to the inside information announcement issued by the Company on 25 March 2022, due to the continuous impact of one of the above financial leasing contract dispute cases, the Company has been listed as a person subject to enforcement by Urumqi Intermediate People's Court, and the subject matter of enforcement was the assets of the Remaining Group with a total value of no more than RMB371,502,848.

At present, the Company is actively communicating with relevant financial institutions involved in the lawsuit, seeking solutions from the professional lawyer team, hoping to reach a settlement through mediation and ensuring the smooth implementation of relevant settlement agreements. If the relevant settlement matters can be reached, the Company's assets subject to preservation measures and enforcement may be unfrozen, and such release will not have any adverse impact on the ownership of relevant assets and the circulation of funds in the account. Therefore, the Company believes that the property preservation and enforcement caused by relevant financial lease contract disputes will not constitute major contingent liabilities of the Remaining Group.

For the nine months ended 30 September 2022

Business review

Wastewater Treatment Projects

As at 30 September 2022, the Remaining Group had a total of 134 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 27 TOT projects, 1 ROT project and 28 municipal environmental comprehensive treatment projects, with a total daily treatment capacity of approximately 3,553,300 tonnes.

Water Supply Projects

As at 30 September 2022, the Remaining Group had a total of 67 concession water supply projects with a total daily treatment capacity of approximately 2,449,100 tonnes, including 15 BOO projects, 35 BOT projects, 11 TOT projects and 6 municipal environmental comprehensive treatment projects.

Solid Waste Treatment Projects

As at 30 September 2022, the Remaining Group had 24 solid waste treatment projects with a total annual treatment capacity of 4,081,900 tonnes.

Construction and Sales of Equipment

The Remaining Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 30 September 2022, the Remaining Group had a total of 11 BT projects and a total of 13 EPC projects.

The Remaining Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Remaining Group's production is membrane. Most of the membrane products are produced by the own plant of the Remaining Group.

Others

During the nine months ended 30 September 2022, the Remaining Group also undertook O&M projects for wastewater treatment, water supply and solid waste treatment facilities owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 30 September 2022, the Remaining Group was providing relevant operation services for 29 O&M projects.

Financial review

Revenue of the Remaining Group increased from approximately RMB2,448.4 million for the nine months ended 30 September 2021 to approximately RMB2,769.5 million for the nine months ended 30 September 2022, representing a increase of approximately 13.1%. In respect of the business segments of the Remaining Group, revenue from the wastewater treatment business segment increased by approximately 55.2% from approximately RMB972.1 million for the nine months ended 30 September 2021 to approximately RMB1,508.4 million for the nine months ended 30 September 2022. Revenue from the water supply segment increased by approximately 20.4% from approximately RMB505.1 million for the nine months ended 30 September 2021 to approximately RMB607.9 million for the nine months ended 30 September 2022. Revenue from solid waste treatment business segment increased by approximately 34.4% from approximately RMB364.4 million for the nine months ended 30 September 2021 to approximately RMB489.8 million for the nine months ended 30 September 2022. Revenue from construction and sales of equipment business segment decreased by approximately 85.5% from approximately RMB490.4 million for the nine months ended 30 September 2021 to approximately RMB71.1 million for the nine months ended 30 September 2022. Revenue from other business decreased by approximately 20.7% from approximately RMB116.4 million for the nine months ended 30 September 2021 to approximately RMB92.3 million for the nine months ended 30 September 2022.

For the nine months ended 30 September 2022, the Remaining Group's unaudited loss attributable to the ordinary shareholders of the Company was approximately RMB692.1 million (for 30 September 2021: RMB510.7 million).

Liquidity and financial resources

As at 30 September 2022, the cash and cash equivalents of the Remaining Group amounted to approximately RMB364,714,000.

As at 30 September 2022, the Remaining Group had borrowings of approximately RMB30,715.9 million (31 December 2021: approximately RMB28,551.6 million). As at 30 September 2022, the Remaining Group had unsecured borrowings of approximately RMB21,867.8 million (31 December 2021: approximately RMB14,634.7 million), and secured borrowings of approximately RMB8,848.1 million (31 December 2021: approximately RMB13,916.9 million).

Borrowings totaling RMB3,688 million as at 30 September 2022 would be immediately repayable if requested by the lenders.

The Remaining Group's gearing ratio (calculated as net debt divided by total capital) was approximately 86.01% as at 30 September 2022.

As at 30 September 2022, the Group had capital commitment of outstanding of approximately RMB11,963.7 million (for 31 December 2021: approximately RMB11,963.7 million).

The Remaining Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments, material acquisitions and disposals

As disclosed in the 2022 Interim Report of the Company, the Remaining Group did not have any significant investments and acquisitions activities occurred during the six months ended 30 June 2022.

Employees and Remuneration Policy

During the nine months ended 30 September 2022, the Remuneration Committee had convened one meeting to discuss the cashing of the performance-based remuneration of the senior management of the Company in 2021.

Pledge of Assets

As at 30 September 2022, borrowings of approximately RMB14,169.4 million (31 December 2021: approximately RMB13,837.9 million were secured by the Remaining Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment, intangible assets and the Company's investments in associates and subsidiaries.

This asset valuation report is prepared in accordance with the Asset Valuation Standards of the PRC

Asset Valuation Report on the Value of the Entire Shareholders' Equity of Yunshui Technology Co., Ltd. Involved in the Proposed Transfer of Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited

Vocation International Ping Bao Zi (2022) No. 0195
(Volume 1 of 1)

Vocation (Beijing) International Assets Appraisal Co., Ltd.
(沃克森(北京)國際資產評估有限公司)
15 August 2022

ASSET VALUATION REPORT • STATEMENT

I. This asset valuation report is prepared in accordance with the Basic Standards for Asset Valuation issued by the Ministry of Finance and the Practicing Standards for Asset Valuation and the Code of Ethics for Asset Valuation issued by the China Appraisal Society.

II. The principal or other users of the asset valuation report shall use the asset valuation report in accordance with the provisions of laws and administrative regulations as well as the scope of use indicated herein. Where the principal or other users of the asset valuation report use the asset valuation report in violation of the preceding provisions, the asset valuation agency and its asset valuation professionals shall bear no liability therefor.

III. This asset valuation report shall be used only by the principal, other users of the asset valuation report as agreed in the asset valuation engagement contract and the users of the asset valuation report stipulated by laws and administrative regulations. Any other institutions or individuals shall not become the users of the asset valuation report.

IV. The asset valuation agency and asset valuers advise that users of the asset valuation report should correctly interpret the valuation conclusion. The valuation conclusion is not equivalent to the realisable value of the valuation target, and the valuation conclusion should not be considered as a guarantee for the realisable value of the valuation target.

V. The asset valuation agency and asset valuers have complied with the laws, administrative regulations and asset valuation standards, abided by the principles of independence, objectivity and fairness, and have assumed responsibilities for the published asset valuation report in accordance with laws.

VI. The list of assets and liabilities related to the valuation target should be reported by the principal and the appraised entity and certified by signature, seal or other means permitted by laws. The principal and other relevant parties shall be responsible for the truthfulness, completeness and legality of the materials provided by them in accordance with laws.

VII. The asset valuation agency and asset valuers have no existing or expected relationship of interests with the valuation target as set out in the asset valuation report; no existing or expected relationship of interests with the relevant parties, and have no prejudice against the relevant parties.

VIII. The asset valuers have conducted on-site inspection on the valuation target as set out in the asset valuation report and the assets involved, and given necessary consideration to the legal ownership status of the valuation target and the assets involved, verified the information regarding the legal ownership of the valuation target and the assets involved, made proper disclosure in respect of the issues identified, and requested the principal and other relevant parties to consummate the titles in order to fulfil the requirements for the issuance of the asset valuation report.

IX. The analyses, judgements and conclusion in the asset valuation report issued by the asset valuation agency are subject to the assumptions and limitations contained therein. Users of the asset valuation report shall fully consider the assumptions, limitations and notes on specific matters set out in the asset valuation report and their impact on the valuation conclusion.

Summary of the Asset Valuation Report on the Value of the Entire Shareholders' Equity of Yunshui Technology Co., Ltd. Involved in the Proposed Transfer of Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited

Vocation International Ping Bao Zi (2022) No. 0195

To Yunnan Water Investment Co., Limited,

Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) has accepted your company's engagement to conduct a valuation on the market value as at 31 December 2021 of the entire shareholders' equity of Yunshui Technology Co., Ltd. involved in the economic behavior of the proposed transfer of 100% equity interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited, pursuant to the laws, administrative regulations and asset valuation standards, and by adhering to the principles of independence, objectivity and impartiality and adopting the asset-based approach in accordance with the necessary valuation procedures. The summary of the asset valuation and the valuation conclusion are reported as follows:

I. Purpose of Valuation

Yunnan Water Investment Co., Limited proposes to transfer 100% equity interests in Yunshui Technology Co., Ltd. This economic behavior has been approved by the Approval Reply of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. on the Proposed Transfer of 100% Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited through Public Tender (Kang Lv [2022] No. 168) (《雲南省康旅控股集團有限公司關於雲南水務投資股份有限公司擬以公開掛牌轉讓方式轉讓雲水科技有限公司100%股權事宜的批覆》(康旅[2022]168號)); and has been approved for filing with the Filing Record for State-owned Assets Supervision and Administration Matters with the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province (Filing No.: Yun Guo Zi Bei An [2022] No. 21) (《雲南省人民政府國有資產監督管理委員會國資監管事項備案表》(備案編號: 雲國資備案{2022}21號)).

II. Valuation Target and Scope of Valuation

The asset valuation target is the value of the entire shareholders' equity of Yunshui Technology Co., Ltd. involved in the proposed transfer of 100% equity interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited; and the scope of valuation covers all the reported assets and liabilities of Yunshui Technology Co., Ltd. involved in the economic behavior as at the valuation reference date.

The financial statements of Yunshui Technology Co., Ltd. as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, and relevant audit conclusions are set out in Da Hua Shen Zi [2022] No. 200346 audit report.

III. Type of Value

Market value.

IV. Valuation Reference Date

31 December 2021.

V. Valuation Method

Asset-based approach.

VI. Valuation Conclusion and Its Validity Period

As of the valuation reference date of 31 December 2021, the carrying value of the owners' equity of Yunshui Technology Co., Ltd. included in the scope of valuation was RMB-266,600. The valuation conclusion under the asset-based approach has been adopted by this valuation as the final valuation conclusion: On the premise of going concern, the value of the entire shareholders' equity of Yunshui Technology Co., Ltd. was RMB296,259,700 with an appreciation in value of RMB296,526,300, representing an appreciation rate of 111,217.94%.

When using the valuation conclusion, the users of this report are hereby reminded to pay attention to the special notes and material subsequent events set out herein.

The valuation conclusion will remain valid for a year, from the valuation reference date of 31 December 2021 to 30 December 2022. Except for the special matters mentioned herein, after the valuation reference date and within the validity period, the valuation conclusion shall be valid upon the occurrence of economic behavior, unless significant changes in operating environment materially impact the Company's operations.

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

Full Text of the Asset Valuation Report on the Value of the Entire Shareholders' Equity of Yunshui Technology Co., Ltd. Involved in the Proposed Transfer of Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited

Vocation International Ping Bao Zi (2022) No. 0195

To Yunnan Water Investment Co., Limited,

Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) has accepted your company's engagement to conduct a valuation on the market value as at 31 December 2021 of the entire shareholders' equity of Yunshui Technology Co., Ltd. involved in the economic behavior of the proposed transfer of 100% equity interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited, pursuant to the laws, administrative regulations and asset valuation standards, and by adhering to the principles of independence, objectivity and impartiality and adopting the asset-based approach in accordance with the necessary valuation procedures. The asset valuation is hereby reported as follows.

I. The Principal, the Appraised Entity and Other Users of the Asset Valuation Report as Agreed in the Asset Valuation Engagement Contract

(i) The Principal

Company Name:	Yunnan Water Investment Co., Limited
Legal Domicile:	Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province
Place of Business:	Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province
Legal Representative:	Li Bo
Registered Capital:	RMB1,193,213,457
Principal Scope of Business:	Investment in urban water supply, wastewater treatment, wastewater reclamation, solid waste treatment in water industry and other environmental governance projects and management thereof; technical consulting on environmental governance; sales of environmental protection equipment (for items subject to approval in accordance with law, the business activities can only be carried out after obtaining approval from the relevant department).

(II) Overview of the Appraised Entity

1. Company registration

Name:	Yunshui Technology Co., Ltd.
Legal domicile:	Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands
Place of business:	Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands
Registered capital:	US$1
Scope of business:	A holding platform company engaged in investment, construction and management of water supply and drainage, wastewater treatment and pipeline networks

2. History

Yunshui Technology Co., Ltd. was established on 26 August 2020 and registered in the British Virgin Islands. With a registered capital of US$1, Yunshui Technology Co., Ltd. was held by Yunnan Water (Hong Kong) Company Limited as to 100% of its equity interest.

3. Scope of business and major operating results

Yunshui Technology Co., Ltd. is a holding platform company engaged in investment, construction and management of water supply and drainage, wastewater treatment and pipeline networks. It is a newly established company with no substantial business operations at present.

4. Shareholding structure as at the valuation reference date

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$)	Paid-in capital contribution amount (US$)	Proportion of subscribed capital contribution (%)
1	Yunnan Water (Hong Kong) Company Limited	Currency	6.38	6.38	100
Total			**6.38**	**6.38**	**100**

5. *Overview of long-term equity investment entities*

(1) Kaifu Xinquan Water (Dafeng) Co., Ltd (凱發新泉水務(大豐)有限公司)*

① Registration

Name:	Kaifu Xinquan Water (Dafeng) Co., Ltd
Address:	Marine Economic Comprehensive Development Zone, Dafeng District, Yancheng City
Legal representative:	Wei Hongbing (韋紅兵)
Registered capital:	US$2.64 million
Paid-in capital:	US$2.64 million
Type of company:	Limited liability company (wholly foreign owned enterprise)
Scope of business:	Production of industrial water and sale of our own products. (For projects requiring approvals in accordance with law, operations are subject to the approval by the relevant authorities)

② Shareholding structure

The shareholding structure of the company at the time of its establishment was as follows:

No.	**Name of shareholder**	**Form of capital contribution**	**Subscribed capital contribution amount (US$'0,000)**	**Paid-in capital contribution amount (US$'0,000)**	**Proportion of subscribed capital contribution (%)**
1	Hyflux Utility Ltd* (凱發公用事業有限公司)	Currency	264	264	100
Total			**264**	**264**	**100**

In December 2021, according to the equity transfer agreement signed between Hyflux Utility Ltd and Yunshui Technology Co., Ltd., Hyflux Utility Ltd transferred 100% equity interest in Kaifu Xinquan Water (Dafeng) Co., Ltd to Yunshui Technology Co., Ltd., with the subscribed capital contribution amount of US$2.64 million (equivalent to RMB20,909,933.99) as the equity transfer price, paid by way of transfer, and the equity transfer fee has not been paid as of the valuation reference date. As of the valuation reference date, the shareholding structure of Kaifu Xinquan Water (Dafeng) Co., Ltd was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Yunshui Technology Co., Ltd.	Currency	264	264	100
Total			**264**	**264**	**100**

As of the valuation reference date, the above-mentioned equity transfer has not yet been registered for industrial and commercial change.

③ Financial position

The assets of the entity for the previous three years and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Current assets	2,365.01	2,270.28	1,922.47	1,837.45
Non-current assets	1,425.83	1,492.98	1,560.55	1,521.72
Net fixed assets	1.52	0.87	0.64	—
Construction in progress	—	—	—	—
Intangible assets	477.00	1,492.11	1,559.92	1,521.72
Of which: Land use rights				
Total assets	**2,843.53**	**3,763.27**	**3,483.03**	**3,359.17**
Current liabilities	1,515.83	1,582.52	1,580.93	276.31
Non-current liabilities	—	—	—	1,159.84
Total liabilities	**1,515.83**	**1,582.52**	**1,580.93**	**1,436.14**
Owners' equity	**1,327.70**	**2,180.74**	**1,902.10**	**1,923.03**

The profits and losses are shown in the table below:

Unit: RMB'0,000

Items	2021	2020	2019	2018
I. Operating income	377.27	651.10	521.54	478.32
Less: Operating costs	253.65	270.19	340.22	255.32
Taxes and surcharges	7.63	8.16	7.74	7.54
Selling expenses	0.00	—	—	—
Administrative expenses	79.39	65.05	98.89	89.73
Research and development expenses	—	—	—	—
Financial expenses	-61.83	-47.84	101.77	138.27
Impairment losses on assets	947.31	—	—	—
Add: Other income	—	0.76	6.12	138.06
Investment income	—	—	—	—
Gain on changes in fair value	—	—	—	—
II. Operating profit	-848.87	356.30	-20.96	125.53
Add: Non-operating income	0.60	0.50	0.03	0.70
Less: Non-operating expenses	0.04	—	—	—
III. Total profit	-848.31	356.80	-20.93	126.23
Less: Income tax expenses	4.73	78.16	—	—
IV. Net profit	-853.05	278.64	-20.93	126.23

Note:

The above financial data for 2018 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2019] No. 200435; the financial data for 2019 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2020KMA20453; the financial data for 2020 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2021KMAA20256; the financial data for 2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2022] No. 200036.

(2) Kaifu Xinquan Water (Taizhou) Co., Ltd (凱發新泉水務(泰州)有限公司)*

① Registration

Name:	Kaifu Xinquan Water (Taizhou) Co., Ltd
Address:	No. 1 Gangcheng West Road, Yanjiang Street, Pharmaceutical High-tech Zone, Taizhou City
Legal representative:	Yu Xueping (余學平)
Registered capital:	US$3.2 million
Paid-in capital:	US$3.2 million
Type of company:	Limited liability company (wholly foreign owned enterprise)
Scope of business:	Engaged in the development of wastewater treatment and related technologies. (For projects requiring approvals in accordance with law, operations are subject to the approval by the relevant authorities) General projects: Wastewater treatment and its recycling (except for items subject to approval required by laws, business activities set forth in the business license may be conducted independently in accordance with law)

② Shareholding structure

The shareholding structure of the company at the time of its establishment was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Hyflux Utility Ltd	Currency	320	320	100
Total			**320**	**320**	**100**

In December 2021, according to the equity transfer agreement signed between Hyflux Utility Ltd and Yunshui Technology Co., Ltd., Hyflux Utility Ltd transferred 100% equity interest in Kaifu Xinquan Water (Taizhou) Co., Ltd to Yunshui Technology Co., Ltd., with the subscribed capital contribution amount of US$3.2 million (equivalent to RMB24,595,331.14) as the equity transfer price, paid by way of transfer, and the equity transfer fee has not been paid as of the valuation reference date. As of the valuation reference date, the shareholding structure of Kaifu Xinquan Water (Taizhou) Co., Ltd was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Yunshui Technology Co., Ltd.	Currency	320	320	100
Total			**320**	**320**	**100**

As of the valuation reference date, the above-mentioned equity transfer has not yet been registered for industrial and commercial change.

③ Financial position

The assets of the entity for the previous three years and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Current assets	2,784.89	589.41	680.32	1,470.83
Non-current assets	6,168.12	7,825.19	8,088.98	5,367.21
Net fixed assets	7.70	7.56	5.97	8.49
Construction in progress	2,345.94	2,345.94	6,116.86	3,154.30
Intangible assets	3,814.48	5,471.69	1,966.14	2,204.42
Of which: Land use rights				
Total assets	**8,953.01**	**8,414.61**	**8,769.30**	**6,838.04**
Current liabilities	5,451.32	4,882.07	5,313.44	3,428.33
Non-current liabilities	—	—	—	—
Total liabilities	**5,451.32**	**4,882.07**	**5,313.44**	**3,428.33**
Owners' equity	**3,501.69**	**3,532.54**	**3,455.86**	**3,409.71**

The profits and losses are shown in the table below:

Unit: RMB'0,000

Items	2021	2020	2019	2018
I. Operating income	2,665.02	1,560.42	1,454.77	1,395.69
Less: Operating costs	2,393.81	1,118.22	997.13	971.18
Taxes and surcharges	25.31	25.29	25.43	31.33
Selling expenses	—	—	—	—
Administrative expenses	169.44	65.12	196.77	241.92
Research and development expenses	—	—	—	—
Financial expenses	129.92	114.07	24.24	-8.23
Impairment losses on assets	0.95	—	—	—
Add: Other income	0.00	1.62	164.28	18.28
Investment income	—	—	—	—
Gain on changes in fair value	—	—	—	—
II. Operating profit	-54.41	239.33	375.47	177.78
Add: Non-operating income	0.14	—	—	43.27
Less: Non-operating expenses	0.64	—	308.00	11.00
III. Total profit	-54.91	239.33	67.47	210.05
Less: Income tax expenses	-24.06	162.65	21.33	47.68
IV. Net profit	-30.85	76.68	46.15	162.37

Note:

The above financial data for 2018 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2019] No. 200171; the financial data for 2019 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2020KMA20485; the financial data for 2020 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2021KMAA20090; the financial data for 2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2022] No. 200034.

(3) Kaifu Xinquan Water (Tiantai) Co., Ltd (凱發新泉水務(天台)有限公司)*

① Registration

Name:	Kaifu Xinquan Water (Tiantai) Co., Ltd
Address:	Xiabaoyuan Village, Chicheng Street, Tiantai County
Legal representative:	Zhang Fen (張芬)
Registered capital:	US$5.6 million
Paid-in capital:	US$5.6 million
Type of company:	Limited liability company (wholly foreign owned enterprise)
Scope of business:	Design, construction, operation and management of wastewater, waste residue, waste gas treatment, noise treatment and environmental protection projects; manufacture of special equipment for environmental pollution prevention and control.

② Shareholding structure

The shareholding structure of the company at the time of its establishment was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Hyflux Utility Ltd	Currency	560	560	100
Total			**560**	**560**	**100**

In December 2021, according to the equity transfer agreement signed between Hyflux Utility Ltd and Yunshui Technology Co., Ltd., Hyflux Utility Ltd transferred 100% equity interest in Kaifu Xinquan Water (Tiantai) Co., Ltd to Yunshui Technology Co., Ltd., with the total investment of US$12.4 million (equivalent to RMB40,681,582.41) as the equity transfer price, paid by way of transfer, and the equity transfer fee has not been paid as of the valuation reference date. As of the valuation reference date, the shareholding structure of Kaifu Xinquan Water (Tiantai) Co., Ltd was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Yunshui Technology Co., Ltd.	Currency	560	560	100
Total			**560**	**560**	**100**

As of the valuation reference date, the above-mentioned equity transfer has not yet been registered for industrial and commercial change.

③ Financial position

The assets of the entity for the previous three years and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Current assets	5,066.67	4,185.41	4,233.50	4,186.67
Non-current assets	20,075.69	20,392.23	20,483.21	18,355.40
Net fixed assets	1.60	2.06	3.39	0.75
Construction in progress	276.95	15,746.77	15,545.95	13,071.77
Intangible assets	19,797.14	4,643.39	4,933.88	5,282.88
Of which: Land use rights				
Total assets	**25,142.36**	**24,577.64**	**24,716.71**	**22,542.07**
Current liabilities	12,301.27	11,248.99	11,129.29	9,485.48
Non-current liabilities	5,840.00	7,390.00	8,740.00	9,820.00
Total liabilities	**18,141.27**	**18,638.99**	**19,869.29**	**19,305.48**
Owners' equity	**7,001.10**	**5,938.65**	**4,847.42**	**3,236.59**

The profits and losses are shown in the table below:

Unit: RMB'0,000

Items		2021	2020	2019	2018
I.	Operating income	4,378.89	3,980.58	4,013.12	1,815.69
Less:	Operating costs	2,042.49	1,797.66	1,543.15	1,232.78
	Taxes and surcharges	67.21	65.41	66.16	39.29
	Selling expenses	—	—	—	—
	Administrative expenses	267.69	91.82	189.58	218.39
	Research and development expenses	—	—	—	—
	Financial expenses	582.37	575.77	290.34	397.28
	Impairment losses on assets	—	—	—	—
Add:	Other income				
	Investment income	—	575.77	—	—
	Gain on changes in fair value	—	3.00	21.19	—
II.	Operating profit	1,419.14	2,028.68	1,945.08	-72.05
	Add: Non-operating income	—	—	—	40.79
	Less: Non-operating expenses	2.43	—	—	—
III.	Total profit	1,416.71	2,028.68	1,945.08	-31.26
	Less: Income tax expenses	354.26	361.68	334.26	—
IV.	Net profit	1,062.45	1,667.00	1,610.83	-31.26

Note:

The above financial data for 2018 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2019] No. 200434; the financial data for 2019 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2020KMA20502; the financial data for 2020 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2021KMAA20359; the financial data for 2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2022] No. 200035.

(4) Kaifu Xinquan Water (Changshu) Co., Ltd (凱發新泉水務(常熟)有限公司)*

① Registration

Name:	Kaifu Xinquan Water (Changshu) Co., Ltd
Address:	Wuyishan Road, Southeast Economic Development Zone, Changshu, Jiangsu Province
Legal representative:	Shen Yun (沈贇)
Registered capital:	US$8 million
Paid-in capital:	US$8 million
Type of company:	Limited liability company (wholly foreign owned enterprise)
Scope of business:	Engaged in the construction and operation of wastewater treatment plants. (For projects requiring approvals in accordance with law, operations are subject to the approval by the relevant authorities)

② Shareholding structure

The shareholding structure of the company at the time of its establishment was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Hyflux Utility Ltd	Currency	800	800	100
Total			**800**	**800**	**100**

In December 2021, according to the equity transfer agreement signed between Hyflux Utility Ltd and Yunshui Technology Co., Ltd., Hyflux Utility Ltd transferred 100% equity interest in Kaifu Xinquan Water (Changshu) Co., Ltd to Yunshui Technology Co., Ltd., with the subscribed capital contribution amount of US$8 million (equivalent to RMB64,992,658.53) as the equity transfer price, paid by way of transfer, and the equity transfer fee has not been paid as of the valuation reference date. As of the valuation reference date, the shareholding structure of Kaifu Xinquan Water (Changshu) Co., Ltd was as follows:

No.	Name of shareholder	Form of capital contribution	Subscribed capital contribution amount (US$'0,000)	Paid-in capital contribution amount (US$'0,000)	Proportion of subscribed capital contribution (%)
1	Yunshui Technology Co., Ltd.	Currency	800	800	100
Total			**800**	**800**	**100**

As of the valuation reference date, the above-mentioned equity transfer has not yet been registered for industrial and commercial change.

③ Financial position

The assets of the entity for the previous three years and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Current assets	9,757.68	10,770.71	7,326.79	7,239.74
Non-current assets	13,707.83	12,009.75	8,357.57	8,420.16
Net fixed assets	1.66	2.78	2.13	0.77
Construction in progress	11.67	6,173.09	1,944.31	1,699.65
Intangible assets	13,694.50	5,833.88	6,411.13	6,719.74
Of which: Land use rights				
Total assets	**23,465.52**	**22,780.46**	**15,684.36**	**15,659.90**
Current liabilities	6,499.40	6,394.26	2,725.39	3,455.14
Non-current liabilities	1,750.00	2,000.00	—	—
Total liabilities	**8,249.40**	**8,394.26**	**2,725.39**	**3,455.14**
Owners' equity	**15,216.12**	**14,386.20**	**12,958.97**	**12,204.76**

The profits and losses are shown in the table below:

Unit: RMB'0,000

Items	2021	2020	2019	2018
I. Operating income	4,313.55	4,265.49	3,881.15	3,592.37
Less: Operating costs	2,972.00	2,253.25	2,150.66	2,142.51
Taxes and surcharges	362.27	218.51	267.98	296.18
Selling expenses	—	—	—	—
Administrative expenses	162.42	142.34	431.71	517.80
Research and development expenses	—	—	—	—
Financial expenses	-286.66	93.10	86.52	141.78
Impairment losses on assets	—	—	—	—
Add: Other income	3.77	333.63	0.05	213.81
Investment income	—	—	25.37	—
Gain on changes in fair value	—	—	—	-25.37
II. Operating profit	1,107.28	1,891.92	969.70	682.55
Add: Non-operating income	—	—	—	28.25
Less: Non-operating expenses	—	—	—	—
III. Total profit	1,107.28	1,891.92	969.70	710.80
Less: Income tax expenses	273.06	464.69	215.49	191.42
IV. Net profit	834.23	1,427.23	754.21	519.38

Note:

The above financial data for 2018 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2019] No. 200361; the financial data for 2019 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2020KMA20390; the financial data for 2020 have been audited by Kunming Branch of ShineWing Certified Public Accountants (Special General Partnership), which issued a standard unqualified audit report No. XYZH/2021KMAA20293; the financial data for 2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2022] No. 200037.

6. *Financial position*

The individual assets of the entity for the previous year and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020
Current assets	5.12	0.00
Non-current assets	12,394.73	0.00
Net fixed assets	0.00	0.00
Construction in progress	0.00	0.00
Intangible assets	0.00	0.00
Of which: Land use rights		
Total assets	**12,399.85**	**0.00**
Current liabilities	12,426.51	0.00
Non-current liabilities	0.00	0.00
Total liabilities	**12,426.51**	**0.00**
Owners' equity	**-26.66**	**0.00**

The individual profits and losses are shown in the table below:

Unit: RMB'0,000

Items		Year of 2021	Year of 2020
I.	Operating income	0.00	0.00
Less:	Operating costs	0.00	0.00
	Taxes and surcharges	0.00	0.00
	Selling expenses	0.00	0.00
	Administrative expenses	25.60	0.00
	Research and development expenses	—	—
	Financial expenses	1.06	0.00
	Impairment losses on assets	—	—
Add:	Other income		
	Investment income	—	—
	Gains on changes in fair value	—	—
II.	Operating profit	-26.66	0.00
	Add: Non-operating income	—	—
	Less: Non-operating expenses	—	—
III.	Total profit	-26.66	0.00
	Less: Income tax expenses	0.00	0.00
IV.	Net profit	-26.66	0.00

Note:

The above financial data for 2020-2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which has issued a standard unqualified audit report Da Hua Shen Zi Shenzi [2022] No. 200346.

The consolidated assets of the entity for the previous year and as at the valuation reference date are shown in the table below:

Unit: RMB'0,000

Assets	31 December 2021	31 December 2020
Current assets	19,979.37	17,815.82
Non-current assets	40,430.17	41,720.16
Long-term equity investment	—	—
Net fixed assets	12.48	13.28
Construction in progress	2,634.56	24,265.80
Intangible assets	37,783.12	17,441.08
Of which: Land use rights		
Total assets	**60,409.54**	**59,535.98**
Current liabilities	38,194.33	24,107.84
Non-current liabilities	7,590.00	9,390.00
Total liabilities	**45,784.33**	**33,497.84**
Owners' equity	**14,625.21**	**26,038.13**

The consolidated profits and losses are shown in the table below:

Unit: RMB'0,000

Items		**Year of 2021**	**Year of 2020**
I.	Operating income	11,734.73	10,457.59
Less:	Operating costs	7,661.96	5,439.33
	Taxes and surcharges	462.42	317.38
	Selling expenses	0.00	0.00
	Administrative expenses	704.54	364.34
	Financial expenses	364.85	735.10
	Impairment losses on assets	947.31	—
	Credit impairment loss	0.95	—
Add:	Gain on changes in fair value		
	Investment income	3.60	339.01
	Other income	—	—
	Gain on disposal of assets	0.17	—
II.	Operating profit	1,596.48	3,940.46
	Add: Non-operating income	0.73	0.50
	Less: Non-operating expenses	7.41	—
III.	Total profit	1,589.80	3,940.97
	Less: Income tax expenses	607.99	1,067.18
IV.	Net profit	981.80	2,873.78

Note:

The above financial data for 2020–2021 have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued a standard unqualified audit report Da Hua Shen Zi [2022] No. 200346.

7. Production and operation

As of the valuation reference date, the appraised entity has not yet carried out actual operations. Kaifu Xinquan Water (Dafeng) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Changshu) Co., Ltd, its long-term investment entities, were under normal operations as at the valuation reference date. Among them, Kaifu Xinquan Water (Dafeng) Co., Ltd is a water supply plant, and the other 3 are sewage treatment plants.

Relevant administrative licenses and permits obtained by Kaifu Xinquan Water (Dafeng) Co., Ltd:

No.	Determination date/valid from	Expiry date/ valid until	Number of license/permit	Name of license/permit	Determination/ licensing authority	Licensed content
1	2021/7/9	2021/7/9	3209010412021J	License for Purchase of Highly Toxic Chemicals	Administrative Licensing Service Section	License for purchase of highly toxic chemicals
2	2019/1/17	2024/1/16	Yan Shui Xing Shen (2019) No. 11	Permit for Application for Administrative Permit for Water Intake of the Project of Expanding the Scale of Water Intake by the Yancheng City Water Conservancy Bureau.	Yancheng City Water Conservancy Bureau	Permit granted to Kaifu Xinquan Water (Dafeng) Co., Ltd for application for the permit of water intake for the project of expanding the scale of water intake
3	2006/6/19	2036/6/18	[09820062] Wai Shang Tou Zi Gong Si Bei An [2020] No. 08310001	Filing of Foreign-invested Companies	Market Supervision and Administration Bureau of Dafeng District, Yancheng	Filing of foreign-invested companies

Relevant administrative licenses and permits obtained by Kaifu Xinquan Water (Taizhou) Co., Ltd:

No.	Determination date/valid from	Expiry date/ valid until	Number of license/permit	Name of license/permit	Determination/ licensing authority	Licensed content
1	2020/6/1	2099/12/31	Tai Gao Xin Shen Pi [2020] No. 15196	Special Equipment Use Registration Certificate	Management Committee of Taizhou Pharmaceutical High-tech Industrial Development Zone	New approval for the use of special equipment
2	2004/10/12	2026/4/11	[12912020] Wai Shang Tou Zi Gong Si Bei An [2020] No. 08250001	Filing of Foreign-invested Companies	Market Supervision and Administration Bureau of Taizhou Pharmaceutical High-tech Industrial Development Zone	Filing of foreign-invested companies

Relevant administrative licenses and permits obtained by Kaifu Xinquan Water (Changshu) Co., Ltd:

No.	Determination date/valid from	Expiry date/ valid until	Number of license/permit	Name of license/permit	Determination/ licensing authority	Licensed content
1	2021/7/28	2026/7/27	9132058176418775XJ	Pollutant-discharge License	Suzhou Ecological Environment Bureau	Types of main pollutants discharged: water: suspended solids, COD, antimony, ammonia, nitrogen, total phosphorus discharge destination: Baimao Tang
2	2004/9/27	2030/9/26	[WZ05810169-6] Wai Shang Tou Zi Gong Si Bei An [2020] No. 08260001	Filing of Foreign-invested Companies	Changshu Market Supervision and Administration Bureau	Filing of foreign-invested companies

The franchise rights of 4 subsidiaries:

No.	Unit	Franchise term	Whether a contract is signed or not	Basic contents
1	Kaifu Xinquan Water (Dafeng) Co., Ltd	2008/1/1–2042/12/31	Yes	Franchise mode: BOT; name of water supply project: Industrial Water Plant Project (Phase I) in the South District of Dafeng Marine Economic Comprehensive Development Zone, Jiangsu Province; construction scale: 20,000 m^3 per day; fee: RMB1.32 per m^3
2	Kaifu Xinquan Water (Taizhou) Co., Ltd	2006/9/25–2026/9/25	Yes	Franchise mode: BOT; name of water supply project: Phase I Project of Binjiang Sewage Treatment Plant in Taizhou Economic Development Zone; construction scale: 20,000 m^3 per day; fee: Water fee is calculated once every ten days, and the water price is RMB1.29–3.85 per m^3
3	Kaifu Xinquan Water (Tiantai) Co., Ltd	2007/1/1–2048/12/31	Yes	Franchise mode: BOT; name of water supply project: Tiantai County Urban Sewage Treatment Plant; construction scale: 80,000 m^3 per day; fee: RMB0.88/m^3
4	Kaifu Xinquan Water (Changshu) Co., Ltd	2005/7/21–2032/4/30	Yes	Franchise mode: BOT; name of water supply project: Changshu Southeast (Guli Town) Sewage Treatment Plant in Jiangsu Province; construction scale: 60,000 m^3 per day; fee: RMB3.05 per m^3

8. *Accounting system and tax policies*

(1) Accounting system

Yunshui Technology Co., Ltd. and its subordinate long-term investment entities (Kaifu Xinquan Water (Dafeng) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Changshu) Co., Ltd) conduct accounting recognition, measurement and reporting on an accrual basis. Their reports are prepared in accordance with the Accounting Standards for Enterprises — Basic Standard, the specific accounting standards and their application guidelines, interpretations and any other relevant provisions issued by the Ministry of Finance (collectively, the "Enterprise Accounting Standards").

(2) Tax policies

The value-added tax rate applicable to Yunshui Technology Co., Ltd. is 6% while it is subject to the urban maintenance and construction tax based on 7% of payable turnover tax and the education surcharge (including local education surcharge) of 5%. It is subject to the business income tax calculated as 25% of taxable income and other taxes and fees in accordance with relevant regulations of the state.

The value-added tax rate applicable to Kaifu Xinquan Water (Dafeng) Co., Ltd is 3% while it is subject to the urban maintenance and construction tax based on 5% of payable turnover tax and the education surcharge (including local education surcharge) of 5%. It is subject to the business income tax calculated as 25% of taxable income and other taxes and fees in accordance with relevant regulations of the state.

The value-added tax rate applicable to Kaifu Xinquan Water (Taizhou) Co., Ltd is 6% while it is subject to the urban maintenance and construction tax based on 7% of payable turnover tax and the education surcharge (including local education surcharge) of 5%. It is subject to the business income tax calculated as 25% of taxable income and other taxes and fees in accordance with relevant regulations of the state.

The value-added tax rate applicable to Kaifu Xinquan Water (Tiantai) Co., Ltd is 6% while it is subject to the urban maintenance and construction tax based on 5% of payable turnover tax and the education surcharge (including local education surcharge) of 5%. It is subject to the business income tax calculated as 25% of taxable income and other taxes and fees in accordance with relevant regulations of the state.

The value-added tax rate applicable to Kaifu Xinquan Water (Changshu) Co., Ltd is 6% while it is subject to the urban maintenance and construction tax based on 5% of payable turnover tax and the education surcharge (including local education surcharge) of 5%. It is subject to the business income tax calculated as 25% of taxable income and other taxes and fees in accordance with relevant regulations of the state.

(III) Relationship between the Principal and the Appraised Entity

The principal, Yunnan Water Investment Co., Limited, is the de facto controller of the appraised entity, Yunshui Technology Co., Ltd., and holds 100% of the equity of Yunnan Water (Hong Kong) Company Limited, the parent company of Yunshui Technology Co., Ltd.

(IV) Other Users of the Asset Valuation Report as Agreed in the Asset Valuation Engagement Contract

The other users of the asset valuation report as agreed in the asset valuation engagement contract, the relevant regulatory authorities or institutions conducting state-owned assets evaluation economic behavior, and the users of assets evaluation reports complying with national laws and regulations are the legal users of this asset valuation report.

Any institution or individual that has not been confirmed by the asset appraisal institution and the principal shall not become the user of the asset valuation report as a result of receiving the asset valuation report, unless otherwise specified by national laws and regulations.

II. Purpose of Valuation

Yunnan Water Investment Co., Limited, intending to transfer its 100% shareholding in Yunshui Technology Co., Ltd., entrusts Vocation (Beijing) International Assets Appraisal Co., Ltd. (沃克森(北京)國際資產評估有限公司) to appraise the market value of all interests of shareholders of Yunshui Technology Co., Ltd. involved in this economic behavior on the valuation reference date, with an aim to present reference to the value for this economic behavior.

This economic behavior has been approved by the Approval Reply of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. on the Proposed Transfer of 100% Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited through Public Tender (Kang Lv [2022] No. 168) (《雲南省康旅控股集團有限公司關於雲南水務投資股份有限公司擬以公開掛牌轉讓方式轉讓雲水科技有限公司100%股權事宜的批覆》(康旅[2022]168號)); and has been approved for filing with the Filing Record for State-owned Assets Supervision and Administration Matters with the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province (Filing No.: Yun Guo Zi Bei An [2022] No. 21) (《雲南省人民政府國有資產監督管理委員會國資監管事項備案表》(備案編號: 雲國資備案{2022}21號)).

III. Subject and Scope of Valuation

The subject and scope of this entrusted valuation are consistent with those involved in the relevant economic behavior, and the financial data involved in this economic behavior have been audited by Yunnan Branch of Da Hua Certified Public Accountants LLP.

(I) Subject of Valuation

The subject of valuation of this asset valuation report is all interest value of shareholders of Yunshui Technology Co., Ltd. involved in the proposed transfer of 100% equity of Yunshui Technology Co., Ltd. held by Yunnan Water Investment Co., Limited.

(II) Scope of Valuation

The scope of valuation covers all assets and liabilities of Yunshui Technology Co., Ltd. involved in the purpose of economic behavior as at the valuation reference date. The financial statements of Yunshui Technology Co., Ltd. as at the valuation reference date were audited by Yunnan Branch of Da Hua Certified Public Accountants LLP, which issued an audited report Da Hua Shen Zi [2022] No. 200346.

As of 31 December 2021, being the valuation reference date, the book value of the owner's equity in Yunshui Technology Co., Ltd. within the scope of valuation amounted to RMB-266,600. The book values of assets and liabilities within the scope of valuation are set out in the following table:

Unit: RMB

Items		Book value
I.	**Total current assets**	**51,181.76**
	Monetary fund	51,181.76
II.	**Total non-current assets**	**123,947,303.16**
	Long-term equity investments	123,947,303.16
III.	**Total assets**	**123,998,484.92**
IV.	**Total current liabilities**	**124,265,102.24**
	Payables	266,623.70
	Other payables	123,998,478.54
V.	**Total non-current liabilities**	—
VI.	**Total liabilities**	**124,265,102.24**
VII.	**Net assets (owners' equity)**	**-266,617.32**

Note:

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

(III) Type and Quantity of Off-Balance Sheet Assets Reported by the Enterprise

Yunshui Technology Co., Ltd. has not reported off-balance sheet assets.

(IV) Reference to Reports Issued by Other institutions

This asset valuation report has made reference to the audited report issued by Yunnan Branch of Da Hua Certified Public Accountants LLP.

(V) Other Matters Requiring Explanations

No.

IV. Type of Value

Based on factors such as the purpose of the valuation, market conditions and the conditions of valuation target, and taking into account the relevance between the type of value and the valuation assumptions, etc., the type of value for the asset valuation is determined as market value.

Market value refers to the estimated amount of the value that can be realized by the valuation target under normal and fair transaction as at the valuation base date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. Valuation Base Date

The asset valuation base date for this project is 31 December 2021.

The valuation base date of this asset valuation is determined after negotiation with the client by taking into account the realisation of the client's relevant economic behaviour, accounting period, interest rate and exchange rate changes.

Asset valuation is a professional judgment on the value of a valuation target at a certain point in time. The selection of the end of accounting period as the valuation base date allows reflecting the overall situation of the valuation target in a more comprehensive manner. Meanwhile, based on the principle of ensuring that the valuation conclusion effectively serves the purpose of valuation, accurately define the scope of valuation, efficiently check and verify the assets, and reasonably select pricing basis for valuation, a date closer to the realisation date of the client's economic behaviour is selected as the valuation base date.

VI. Valuation Basis

Laws and regulations of the state, local governments and relevant departments we followed during this asset valuation, as well as documents and materials we referred to in the valuation mainly included:

(I) Basis for economic behaviour

1. Approval Reply of Yunnan Health & Cultural Tourism Holding Group Co., Ltd. on the Proposed Transfer of 100% Equity Interests in Yunshui Technology Co., Ltd. by Yunnan Water Investment Co., Limited through Public Tender (Kang Lv [2022] No. 168) (《雲南省康旅控股集團有限公司關於雲南水務投資股份有限公司擬以公開掛牌轉讓方式轉讓雲水科技有限公司100%股權事宜的批覆》(康旅[2022]168號)).

2. Filing Record for State-owned Assets Supervision and Administration Matters with the State-owned Assets Supervision and Administration Commission of the People's Government of Yunnan Province (Filing No.: Yun Guo Zi Bei An [2022] No. 21) (《雲南省人民政府國有資產監督管理委員會國資監管事項備案表》(備案編號: 雲國資備案{2022}21號)).

(II) Basis for laws and regulations

1. The Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);

2. The Company Law of the People's Republic of China (《中華人民共和國公司法》) (passed at the 6th session of the 13th Standing Committee of the National People's Congress on 26 October 2018);

3. The Civil Code of the People's Republic of China (《中華人民共和國民法典》) (passed at the 3rd session of the 13th Standing Committee of the National People's Congress on 28 May 2020);

4. The Law on State-owned Assets of Enterprises of the People's Republic of China (《中華人民共和國企業國有資產法》) (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);

5. Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (amended in accordance with the Decision on Amending the Enterprise Income Tax Law of the People's Republic of China (《關於修改<中華人民共和國企業所得稅法>的決定》) at the 26th session of the 12th Standing Committee of the National People's Congress on 24 February 2017);

6. Administrative Measures for State-Owned Assets Assessment (《國有資產評估管理辦法》) (Order No. 91 of the State Council on 16 November 1991);

7. Measures for the Supervision and Administration of State-owned Assets Trading of Enterprises (《企業國有資產交易監督管理辦法》) (Order No. 32 of the SASAC and MOF on 24 June 2016);

8. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (《企業國有資產評估管理暫行辦法》) (Order No. 12 of the SASAC, passed at the 31st Director's Office Meeting of the SASAC on 25 August 2005);

9. Notice on Relevant Matters Concerning Strengthening the Administration of Valuation of State-owned Assets of Enterprises (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Wei Chan Quan [2006] No. 274 on 12 December 2006);

10. Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》) (State Council Decree No. 588, revised by the Decision of the State Council on Abolishing and Amending Some Administrative Regulations on 8 January 2011);

11. Guidelines on the Filing of State-owned Assets Appraisal Projects for Enterprises (《企業國有資產評估項目備案工作指引》) (Guo Zi Fa Chan Quan [2013] No. 64 on 10 May 2013);

12. The Notice on Relevant Matters Concerning the Examination of Assessment Reports on State-owned Assets of Enterprises (《關於企業國有資產評估報告審核工作有關事項的通知》) (Guo Zi Chan Quan [2009] No. 941 on 11 September 2009);

13. Measures for Financial Supervision and Administration of the Asset Valuation Industry (《資產評估行業財政監督管理辦法》) (Order No. 86 of the Ministry of Finance of the People's Republic of China);

14. The Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises in Yunnan Province (《雲南省省屬企業國有資產評估管理暫行辦法》) (Yun Guo Zi Chan Quan [2018] No. 147);

15. Guidelines on the Filing of State-owned Assets Appraisal Projects for Enterprises in Yunnan Province (《雲南省省屬企業國有資產評估項目備案工作指引》) (Yun Guo Zi Chan Quan [2018] No. 149);

16. Other laws and regulations relating to asset valuation.

(III) Basis of standards

1. Basic Standards for Asset Valuation (23 August 2017, Cai Zi [2017] No. 43);

2. Professional Code of Ethics for the Valuation of Assets (Zhong Ping Xie [2017] No. 30);

3. Practicing Standards for the Valuation of Assets — Asset Valuation Procedure (Zhong Ping Xie [2018] No. 36);

4. Practicing Standards for the Valuation of Assets — Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Practicing Standards for the Valuation of Assets — Asset Valuation Engagement Contract (Zhong Ping Xie [2017] No. 33);

6. Practicing Standards for the Valuation of Assets — Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

7. Practicing Standards for the Valuation of Assets — Engagement of Experts and Related Reports (Zhong Ping Xie [2017] No. 35);

8. Practicing Standards for the Valuation of Assets — Enterprise Value (Zhong Ping Xie [2018] No. 38);

9. Practicing Standards for the Valuation of Assets — Asset Appraisal Methodology (Zhong Ping Xie [2019] No. 35);

10. Guidelines for the Asset Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

11. Practicing Standards for the Valuation of Assets — Intangible Assets (Zhong Ping Xie [2017] No. 37);

12. Practicing Standards for the Valuation of Assets — Real Estate (Zhong Ping Xie [2017] No. 38);

13. Practicing Standards for the Valuation of Assets — Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

14. Guidelines for Business Quality Control of Asset Appraisal Institutions (Zhong Ping Xie [2017] No. 46);

15. Guiding Opinions on Value Types of Assets Valuation (Zhong Ping Xie [2017] No. 47);

16. Guiding Opinions on Legal Ownership of Assets Valuation Objects (Zhong Ping Xie [2017] No. 48);

17. Asset Valuation Standard Terminology 2020 (Zhong Ping Xie [2020] No. 31).

(IV) Basis for property rights

1. State-owned land use certificates or grant contracts of state-owned land use rights;

2. Building ownership certificates or real estate ownership certificates;

3. Vehicle license;

4. Contract for the transfer of property rights of underlying assets;

5. Purchase contract of large-scale equipment and related property right certification documents;

6. Other relevant certificates of property rights.

(V) Pricing basis

1. Information provided by the enterprise

   (1) Financial statements and audit reports provided by the enterprise as at the valuation base date and for the previous years;

   (2) A list of assets and a return of asset valuation provided by the enterprise;

   (3) Future income forecast form filled in and submitted by the enterprise;

2. Information released by relevant national authorities

   (1) Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Order No. 12 in 2012 of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection);

3. Information collected by the asset valuation institution

   (1) RoyalFlush iFinD financial database;

   (2) Information on site survey records by valuation professionals;

   (3) Information relevant to the valuation collected by valuation professionals themselves;

   (4) Other information relevant to this valuation.

VII. Valuation Method

(I) Selection of Valuation Method

1. Basis of Selecting Valuation Method

(1) Article 16 of the Basic Standards on Assets Valuation stipulates that "the valuation methods of determining asset value include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods in accordance with laws."

(2) Article 17 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that "when evaluating enterprise value, the suitability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal target, the type of value, the collected information, etc., so as to ensure selection of appropriate valuation methods."

(3) Article 18 of the Practice Guidelines for Asset Valuation — Enterprise Value stipulates that "if different valuation methods are suitable for evaluation of enterprise value, asset valuation professionals should adopt two or more valuation methods for their valuation."

2. Suitability of Valuation Methods

(1) Income Approach

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

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

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

(2) Market Approach

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

The market approach primarily consists of methods of comparing with listed companies and transactions.

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

(3) Asset-based Approach

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

3. Selection of Valuation Method

Analysis of Suitability of the Three Valuation Methods for the Project

(1) Analysis of Suitability of Income Approach:

Considering that Yunshui Technology Co., Ltd. is a holding platform company established overseas, and is engaged in the investment, construction and management of water supply and drainage, sewage treatment and pipe network, which has been established for a relatively short time and has not conducted any substantive business since its establishment. It does not has expected future revenue, and the risks that such revenue are exposed to can also be gauged. Therefore, the income approach was not applicable for valuation of this project.

(2) Analysis of Suitability of Market Approach:

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

(3) Analysis of Suitability of Asset-based Approach:

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

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

(II) Rationale of Asset-based Approach

We have evaluated the entire shareholder's equity interests of Yunshui Technology Co., Ltd. through asset-based approach. That is, firstly, we adopt proper approach to evaluate the market value of each type of assets, and calculated the appraised value of the entire shareholder's equity interests by detracting liabilities from summed-up amount of all assets of Yunshui Technology Co., Ltd.

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

(1) Monetary capital: For RMB-denominated monetary capital, their appraised values are determined based on verified book value. Foreign currency-denominated monetary capital are translated into RMB according to the median rate of such foreign currency on the Reference date as appraised value.

(2) Long-term equity investments: All the accounting contents of long-term equity investment is foreign investment projects, and the shareholding proportion is 100%. For long-term equity investments with an investment ratio of more than 50%, actual control over the investee and accounting for by the enterprise according to the cost method, the overall appraisal method is adopted, that is, the investee is evaluated as a whole, and the appraised value of the long-term investment is determined based on the market value and equity ratio of all shareholders' equity after evaluation.

Based on the actual operation of the investees Kaifu Xinquan Water (Dafeng) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Changshu) Co., Ltd on the reference date, the suitability of the income approach, market method and asset-based method out of the overall valuation methods was analyzed.

1) Analysis of Suitability of Income Approach:

Considering that Kaifu Xinquan Water (Dafeng) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Changshu) Co., Ltd have been established for a long time, Kaifu Xinquan Water (Dafeng) Co., Ltd belongs to the industry of water production, the other 3 companies belong to sewage treatment industry and their business models are stable, the future expected returns can be forecasted and can be measured in currency, and the risks for obtaining future expected revenue can be measured, therefore, the income approach was adopted to evaluate the investees for this project.

2) Analysis of Suitability of Market Approach:

Considering that there are not enough comparable listed companies operating in the same industry as Kaifu Xinquan Water (Dafeng) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Changshu) Co., Ltd in China's capital market, and there are rare transaction cases in the same industry at the same time, and relevant disclosure is inadequate, therefore, the market approach was not applicable to evaluate the investees for this project.

3) Analysis of Suitability of Asset-based Approach:

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

In summary, this long-term equity investment adopts the income approach and asset-based approach for valuation, and then the final valuation method and evaluation conclusion shall be comprehensively analyzed and determined according to the actual situation of the evaluated entity and the basic matters of the assessment.

As at 31 December 2021, being the valuation base date, the valuation of the four long-term equity investments under Yunshui Technology Co., Ltd. was as follows:

A Kaifu Xinquan Water (Dafeng) Co., Ltd

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach.

The preliminary value conclusion formed using the asset-based approach was as follows: as at 31 December 2021, being the valuation base date, the book value of the total assets of Kaifu Xinquan Water (Dafeng) Co., Ltd included in the scope of valuation was RMB37,908,400, with an appraised value of RMB28,435,100 and an impairment amount of RMB9,473,200, representing an appreciation rate of 24.99%; the book value of liabilities was RMB15,158,300 and the appraised value was RMB15,158,300, with no appreciation or impairment for the valuation; the book value of owners' equity was RMB22,750,000 and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB13,276,800, with an impairment amount of RMB9,473,200, representing an impairment rate of 41.64%.

The preliminary value conclusion formed using the income approach was that the appraised value of total shareholders' equity interests was RMB11,574,900.

The difference in the valuation results between the two valuation approaches is significant. Such difference in the valuation results between them is mainly due to the different perspectives considered by both valuation approaches: the asset-based approach is based on the reacquisition of assets and reflects the replacement value of existing assets of the enterprise; while the income approach is based on the future profitability of the enterprise and reflects the comprehensive profitability of various assets of the enterprise.

In view of the purpose of this valuation and the actual situation of the company, the valuation conclusion of the asset-based approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company, and therefore the preliminary valuation conclusion of the asset-based approach is adopted as the final valuation conclusion in this valuation. In other words, as at 31 December 2021, being the valuation base date, the book value of owners' equity included in the valuation scope of Kaifu Xinquan Water (Dafeng) Co., Ltd was RMB22,750,000, and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB13,276,800, with an impairment amount of RMB9,473,200, representing an impairment rate of 41.64%.

B Kaifu Xinquan Water (Taizhou) Co., Ltd

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach.

The preliminary value conclusion formed using the asset-based approach was as follows: as at 31 December 2021, being the valuation base date, the book value of the total assets of Kaifu Xinquan Water (Taizhou) Co., Ltd included in the scope of valuation was RMB89,530,100, with an appraised value of RMB89,848,600 and an appreciation amount of RMB318,500, representing an appreciation rate of 0.36%; the book value of liabilities was RMB54,513,200 and the appraised value was RMB54,513,200, with no appreciation or impairment for the valuation; the book value of owners' equity was RMB35,016,900 and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB35,335,400, with an appreciation amount of RMB318,500, representing an appreciation rate of 0.91%.

The preliminary value conclusion formed using the income approach was that the appraised value of total shareholders' equity interests was RMB35,401,600.

The difference in the valuation results between the two valuation approaches is not significant. Such difference in the valuation results between them is mainly due to the different perspectives considered by both valuation approaches: the asset-based approach is based on the reacquisition of assets and reflects the replacement value of existing assets of the enterprise; while the income approach is based on the future profitability of the enterprise and reflects the comprehensive profitability of various assets of the enterprise.

Usually, intangible resources such as brand advantages, technological advantages, product advantages and goodwill possessed by an enterprise are difficult to be fully reflected in the valuation results of the asset-based approach. The income approach is based on the profitability of the enterprise to forecast the value of such enterprise. The asset-based approach refers to the valuation approach in which, based on the balance sheet of the appraised entity on the valuation base date, the value of identifiable assets and liabilities on-and off-balance sheet shall be reasonably appraised so as to determine the value of the valuation target. The appraised entity belongs to the wastewater treatment industry and its major asset is intangible asset — operating concessions, therefore the income approach can better reflect the overall comprehensive profitability of the appraised entity.

In summary, the valuation conclusion is based on the above valuation work: the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company, and therefore the preliminary valuation conclusion of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at 31 December 2021, being the valuation base date, the book value of owners' equity included in the valuation scope of Kaifu Xinquan Water (Taizhou) Co., Ltd was RMB35,016,900, and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB35,401,600, with an appreciation amount of RMB384,700, representing an appreciation rate of 1.10%.

C Kaifu Xinquan Water (Tiantai) Co., Ltd

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach.

The preliminary value conclusion formed using the asset-based approach was as follows: as at 31 December 2021, being the valuation base date, the book value of the total assets of Kaifu Xinquan Water (Tiantai) Co., Ltd included in the scope of valuation was RMB251,423,600, with an appraised value of RMB287,236,800 and an appreciation amount of RMB35,813,200, representing an appreciation rate of 14.24%; the book value of liabilities was RMB181,412,700 and the appraised value was RMB181,412,700, with no appreciation or impairment; the book value of owners' equity was RMB70,011,000 and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB105,824,200, with an appreciation amount of RMB35,813,200, representing an appreciation rate of 51.15%.

The preliminary value conclusion formed using the income approach was that the appraised value of total shareholders' equity interests was RMB142,273,000.

The difference in the valuation results between the two valuation approaches is significant. Such difference in the valuation results between them is mainly due to the different perspectives considered by both valuation approaches: the asset-based approach is based on the reacquisition of assets and reflects the replacement value of existing assets of the enterprise; while the income approach is based on the future profitability of the enterprise and reflects the comprehensive profitability of various assets of the enterprise.

Usually, intangible resources such as brand advantages, technological advantages, product advantages and goodwill possessed by an enterprise are difficult to be fully reflected in the valuation results of the asset-based approach. The income approach is based on the profitability of the enterprise to forecast the value of such enterprise. The asset-based approach refers to the valuation approach in which, based on the balance sheet of the appraised entity on the valuation base date, the value of identifiable assets and liabilities on-and off-balance sheet shall be reasonably appraised so as to determine the value of the valuation target. The appraised entity belongs to the wastewater treatment industry and its major asset is intangible asset — operating concessions, therefore the income approach can better reflect the overall comprehensive profitability of the appraised entity.

In summary, the valuation conclusion is based on the above valuation work: the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company, and therefore the preliminary valuation conclusion of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at 31 December 2021, being the valuation base date, the book value of owners' equity included in the valuation scope of Kaifu Xinquan Water (Tiantai) Co., Ltd was RMB70,011,000, and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB142,273,000, with an appreciation amount of RMB72,262,000, representing an appreciation rate of 103.22%.

D Kaifu Xinquan Water (Changshu) Co., Ltd

In accordance with relevant national regulations, we have conducted the valuation using both the asset-based approach and the income approach.

The preliminary value conclusion formed using the asset-based approach was as follows: as at 31 December 2021, being the valuation base date, the book value of the total assets of Kaifu Xinquan Water (Changshu) Co., Ltd included in the scope of valuation was RMB234,655,200, with an appraised value of RMB299,603,900 and an appreciation amount of RMB64,948,700, representing an appreciation rate of 27.68%; the book value of liabilities was RMB82,494,000 and the appraised value was RMB82,494,000, with no appreciation or impairment for the valuation; the book value of owners' equity was RMB152,162,000 and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB217,109,900, with an appreciation amount of RMB64,948,700, representing an appreciation rate of 42.68%.

The preliminary value conclusion formed using the income approach was that the appraised value of total shareholders' equity interests was RMB229,522,200.

The difference in the valuation results between the two valuation approaches is not significant. Such difference in the valuation results between them is mainly due to the different perspectives considered by both valuation approaches: the asset-based approach is based on the reacquisition of assets and reflects the replacement value of existing assets of the enterprise; while the income approach is based on the future profitability of the enterprise and reflects the comprehensive profitability of various assets of the enterprise.

Usually, intangible resources such as brand advantages, technological advantages, product advantages and goodwill possessed by an enterprise are difficult to be fully reflected in the valuation results of the asset-based approach. The income approach is based on the profitability of the enterprise to forecast the value of such enterprise. The asset-based approach refers to the valuation approach in which, based on the balance sheet of the appraised entity on the valuation base date, the value of identifiable assets and liabilities on-and off-balance sheet shall be reasonably appraised so as to determine the value of the valuation target. The appraised entity belongs to the wastewater treatment industry and its major asset is intangible asset — operating concessions, therefore the income approach can better reflect the overall comprehensive profitability of the appraised entity.

In summary, the valuation conclusion is based on the above valuation work: the valuation conclusion of the income approach is more reliable and convincing and is able to completely and truly reflect the market value of total shareholders' equity interests of the company, and therefore the preliminary valuation conclusion of the income approach is adopted as the final valuation conclusion in this valuation. In other words, as at 31 December 2021, being the valuation base date, the book value of owners' equity included in the valuation scope of Kaifu Xinquan Water (Changshu) Co., Ltd was RMB152,161,200, and the appraised value of total shareholders' equity interests on the premise of maintaining the current existing use and going concern operation was RMB229,522,200, with an appreciation amount of RMB77,361,000, representing an appreciation rate of 50.84%.

(4) Liabilities

Liabilities mainly include trade payables and other payables. The asset valuer investigated and verified the enterprise's liabilities, and took the amount of liabilities required to be actually borne by the enterprise as at the valuation base date as the appraised value of liabilities based on the verification.

VIII. PROCESS AND IMPLEMENTATION OF THE VALUATION PROCEDURES

In accordance with the relevant provisions of laws, regulations and asset valuation standards, the valuation has been conducted in appropriate valuation procedures. The detailed implementation process is as follows:

(I) Clarifying basic matters of the engagement

Negotiate with the principal over and specify key matters such as users of the valuation report other than the appraised entity and the principal, valuation purpose, valuation target and valuation scope, value type, valuation reference date, approval of the economic behaviors involved in the asset valuation project that require approval, scope of use of the valuation report, submission time and method of the valuation report, valuation service fee and manner of payment, and the cooperation and assistance in work among the principal, other relevant parties, the asset valuation agency and asset valuation professionals.

(II) Entering into business engagement contract

Enter into an asset valuation business engagement contract with the principal after comprehensive analysis and assessment of the professional competence, independence and business risks of the asset valuation agency and asset valuation professionals according to the specific condition of the valuation work, so as to agree on the rights, obligations, liability for breach of contract and dispute resolution of the asset valuation agency and the principal.

(III) Preparation of asset valuation plans

Prepare valuation work plans in accordance with the specific condition of the asset valuation work, including determining the main process, time schedule and personnel arrangement, etc. for the implementation of the asset valuation.

(IV) Conducting valuation site surveys

1. Instruct related parties such as the principal and the appraised entity to check assets and prepare detailed materials involving the valuation target and valuation scope;

2. Investigate through appropriate methods such as questioning, external confirmation, verification, supervision, survey, examination, etc. based on the specific circumstances of the valuation target; understand the current status of the valuation target; pay attention to the legal ownership of the valuation target. Adopt sampling or other methods to investigate matters not suitable for investigating item by item according to their degree of significance.

3. Investigation of the income status of the appraised entity: the asset valuation professionals investigate the business operations of the enterprise mainly by collecting and analyzing the historical operating conditions and future business plans of the enterprise as well as conducting interviews with the management.

(V) Collecting and organizing valuation information

The asset valuation professionals shall obtain information independently from sources such as the market, from relevant parties such as the principal and the appraised entity, and from government departments, various professional bodies and other relevant departments.

The asset valuation professionals shall adopt appropriate means to verify and validate the information used in asset valuation activities. The means of verification and validation usually include observation, questioning, written examination, site surveys, enquiry, external confirmation, and review, etc..

(VI) Arriving at conclusion after valuation and estimation

1. Based on valuation purpose, valuation target, value type and information collection, etc., the applicability of the three basic methods including market approach, income approach and asset-based approach shall be analyzed, and appropriate valuation method(s) shall be selected;

2. In accordance with the valuation method(s) adopted, corresponding formulas and parameters shall be selected for analysis, calculation and judgement to form a reasonable valuation conclusion.

(VII) Preparation and submission of valuation report

1. The asset valuation professionals shall form a preliminary valuation conclusion after assessment and estimation, and prepare the preliminary asset valuation report in accordance with the requirements of laws, administrative regulations and asset valuation standards;

2. Internal audit of the preliminary asset valuation report shall be conducted in accordance with the internal quality control system of the asset valuation agency;

3. Without prejudice to the exercise of independent judgment on the valuation conclusion, the valuer shall communicate with the principal or the relevant parties as permitted by the principal regarding the contents of the valuation report, conduct an independent analysis of the communication and decide whether to make any adjustment to the asset valuation report;

4. Upon completion of above valuation procedures, the asset valuation agency and its asset valuation professionals shall issue and submit a formal asset valuation report to the principal.

IX. VALUATION ASSUMPTIONS

The valuation assumptions we have relied on and used in the valuation process are the basic premise of the asset valuation, and users of the valuation report are advised to pay attention to the contents of the valuation assumptions in order to properly understand and use the valuation conclusions.

(I) Basic Assumptions

1. Transaction assumption.

Transaction assumption assumes that the valuation target and the assets and liabilities to be valued are already in the course of transaction and the asset valuer carries out the valuation based on a simulated market which involves the transaction conditions. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

2. Open market assumption.

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

3. Asset going-concern assumption.

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

4. Corporate going-concern assumption.

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

(II) General Assumptions

1. It is assumed that there are no significant changes in the political, economic, social and other macro environment of the appraised entity and the region where it operates which would affect its operation after the valuation reference date;

2. Except those laws and regulations already enacted or enacted but not yet enforced by the government as at the valuation reference date which affect the operations of the appraised entity, it is assumed that there are no significant changes in the laws and regulations related to the operations of the appraised entity during the income period;

3. It is assumed that ever since the valuation reference date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation involved in the operations of the appraised entity that will cause material effects on the business condition of the appraised entity during the income period (considering the changes to the interest rate between the valuation reference date and the report date);

4. It is assumed that ever since the valuation reference date, there are no force majeure or unforeseeable events affecting the operations of the appraised entity;

5. It is assumed that the appraised entity will continue to operate and its assets will continue to be used in the income forecast period;

6. It is assumed that the accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the valuation reference date in material respects;

7. It is assumed that the operations of the appraised entity will be in compliance with and not against the national laws and regulations during the income forecast period;

8. It is assumed that the operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there are no significant changes during the income forecast period to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the valuation reference date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

9. It is assumed that the information provided by the principal and the appraised entity are true, complete, reliable, and there are no other defects or contingencies which may affect the valuation conclusions that have not been notified by the principal/entity under valuation as they should have been and that remain unknown to the asset valuation professionals after the performance of the requisite valuation procedures;

10. It is assumed that there will be no litigation, pledge or guarantee etc., that will cause material effect to the business performance of the appraised entity during the income forecast period.

(III) Specific Assumptions

1. Except for the fixed assets investments for which there is definite evidence as of the valuation reference date showing that the production capacity will change subsequently, it is assumed that the appraised entity will not make significant investment activities on fixed assets that will affect its operations during the income forecast period, and its production capacity will be estimated based on the status as of the valuation reference date;

2. In this valuation, the impact of the external equity investments made by the appraised entity following the valuation reference date on its value is no considered;

3. It is assumed that the amount of taxable income and the total profits of the appraised entity will be consistent in general, and that there will be no material adjustment to perpetual difference and temporal difference during the income forecast period;

4. It is assumed that during the income forecast period, the appraised entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

5. It is assumed that the appraised entity will have steady cash inflows and cash outflows during the income forecast period, without a burst of inflows to be recognized as receipt at a certain point in the year.

In accordance with the requirements of the asset valuation, we have determined that these assumptions are valid as of the valuation reference date. When the valuation assumptions changed significantly after the valuation report date, we shall not be responsible for deriving different valuation conclusions due to changes in the valuation assumptions.

X. VALUATION CONCLUSION

(i) Valuation Results of the Asset-Based Approach

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

As at the valuation reference date, i.e. 31 December 2021, the carrying value of total assets of Yunshui Technology Co., Ltd.* (雲水科技有限公司) included in the scope of the valuation was RMB123,998,500, and the appraised value was RMB420,524,800, representing an appreciation of RMB296,526,300 and an appreciation rate of 239.14%. The carrying value of liabilities was RMB124,265,100, with an appraised value of RMB124,265,100, representing no appreciation or depreciation. The carrying value of the owners' equity was RMB-266,600, and the appraised value of the entire shareholders' equity was RMB296,259,700 under the premise of maintaining the existing use as a going concern, which represented an appreciation of RMB296,526,300 and an appreciation rate of 111,217.94%. Valuation results of each asset type are as follows:

Unit: RMB'0,000

Item name	Carrying value	Appraised value	Increase or decrease	Appreciation rate (%)
Current assets	5.12	5.12	0.00	0.00
Non-current assets	12,394.73	42,047.36	29,652.63	239.24
Of which: Long-term equity investment	12,394.73	42,047.36	29,652.63	239.24
Fixed assets	—	—	—	—
Construction in progress	—	—	—	—
Intangible assets	—	—	—	—
Total assets	**12,399.85**	**42,052.48**	**29,652.63**	**239.14**
Current liabilities	12,426.51	12,426.51	—	—
Long-term liabilities	—	—	—	—
Total liabilities	**12,426.51**	**12,426.51**	—	—
Owners' equity	**-26.66**	**29,625.97**	**29,652.63**	**111,217.94**

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

(ii) Validity Period of Valuation Conclusion

The valuation conclusion will remain valid for one year, from the valuation reference date of 31 December 2021 to 30 December 2022. Save for the special matters disclosed in this report, the valuation conclusion shall remain valid subsequent to the valuation reference date and within the validity period when an economic behavior occurs, so long as there is no material change in the environment for corporate development affecting its operating conditions.

In the event of material changes in the market conditions or asset status on which the valuation conclusion are based, such that the valuation conclusion can no longer reflect the value of the valuation target on the date of the occurrence of the economic behavior, the following principles shall apply notwithstanding that a period of less than one year has lapsed from the valuation reference date to the date of occurrence of the economic behavior:

1. In the event of changes in the quantity of the assets or material changes in the conditions of use of the assets, adjustments should be made accordingly to the valuation conclusion using the original valuation methods;

2. In the event of changes in the market conditions on which the valuation conclusion are based resulting in an evident impact on the valuation conclusion, the principal shall engage a qualified appraiser in a timely manner to re-evaluate the value of the valuation target;

3. The principal should give full consideration to changes in asset status and market conditions subsequent to the valuation reference date and make adjustments accordingly when determining the pricing of the valuation target.

XI. INSTRUCTIONS ON SPECIAL MATTERS

Under the precondition of confirmed valuation conclusion, special matters refer to relevant matters revealed by the asset valuer that may have affected the valuation conclusion during the valuation process, but can not be assessed by the asset valuer by virtue of its qualification and ability. We specifically remind the users of the assets valuation report of the impact of special matters on the valuation conclusion of this valuation report.

1. In this valuation conclusion, the asset valuation professionals have not conducted technical inspection to the technical parameter and performance of facilities as at the valuation reference date, and instead they made judgments by assuming that the relevant technical information and operation records provided by the appraised entity are true and valid, and consulting with the management staff and operation staff of such facilities about their use as well as carrying out site investigation. The asset valuation professionals have not conducted technical tests on the concealed works and internal structures of various buildings and structures (the parts that non-observable by naked eyes), assumed the relevant engineering information provided by the appraised entity were true and valid, judgments were made by on-site investigation without the aids of any inspection equipments.

2. The information on profit forecast provided by the appraised entity to the asset appraisal agency is the basis of income-approach valuation adopted in the valuation report. The asset valuer has conducted necessary investigation, analysis and judgements on the profit forecast made by the appraised entity, and the asset appraisal agency, upon rounds of discussion with the management of the appraised entity and with further revision and improvement of the relevant information on profit forecast made by the appraised entity, is satisfied with such information of the appraised entity. The application of the information on future profit forecast of the appraised entity by the asset appraisal agency does not constitute a guarantee for the future profitability of the appraised entity.

3. Incomplete or Defective Ownership Information:

For the land and the structures thereon used for the reclaimed water project of Kaifu Xinquan Water (Taizhou) Co., Ltd, a subsidiary included in the scope of this valuation, as at the valuation reference date, the certificates of title have not been obtained as the usage of the land is subject to a new round of adjustment and plan by the government, such certificates are currently under process. The land and properties for the reclaimed water project were invested and constructed by Kaifu Xinquan Water (Taizhou) Co., Ltd and therefore, are owned by this company. As at the valuation reference date, the holder of certificates of title undertakes that such land and properties are free from any mortgage, guarantee or pledge, and are not subject to any dispute, and there are no restrictions that affect the value of such assets. This valuation does not consider the impact of the above matter on the valuation result.

4. Nature and Amount of Guarantees, Leases and Its Contingent Liabilities (Contingent Assets) etc. and their Relationship with the Valuation Target:

(1) As at the valuation reference date, Kaifu Xinquan Water (Taizhou) Co., Ltd has a pledge, details of which are as follows:

Name of Asset	No. of the Certificate of Title of the Pledged Asset	Pledgee	Commence Date	Termination Date	Loan Amount (RMB0'000)
Land	Su (2020) Taizhou City Real Estate Right No. 0186188* (蘇(2020)泰州市不動產權第0186188號)	Taizhou Gaogang Branch of Bank of Jiangsu Co., Ltd. * (江蘇銀行股份有限公司泰州高港支行)	2021/1/7	2024/1/7	1,000.00

This valuation does not consider the impact of the above matter on the valuation result.

(2) As at the valuation reference date, Kaifu Xinquan Water (Changshu) Co., Ltd has a pledge, details of which are as follows:

Name of Asset	No. of the Certificate of Title of the Pledged Asset	Pledgee	Commence Date	Termination Date	Loan Amount (RMB0'000)
Land	Su (2019) Changshu City Real Estate Right No. 8100979* (蘇(2019)常熟市不動產權第8100979號)	Changshu Branch of Industrial and Commercial Bank of China Limited	2019/12/13	2029/12/31	6,000.00
Pledge of Sewage Charges Right	Nil	Changshu Branch of Industrial and Commercial Bank of China Limited	2019/12/13	2029/12/31	

This valuation does not consider the impact of the above matter on the valuation result.

5. According to the resolutions passed at the 72th general manager working meeting for 2021 and the 27th Meeting of Party Committee for 2021 of Yunnan Water Investment Co., Limited, the integration of equity interests and management of its wholly-owned subsidiaries, including Kaifu Xinquan Water (Changshu) Co., Ltd, Kaifu Xinquan Water (Taizhou) Co., Ltd, Kaifu Xinquan Water (Tiantai) Co., Ltd and Kaifu Xinquan Water (Dafeng) Co., Ltd, taking Yunshui Technology Co., Ltd., a wholly-owned subsidiary of Yunnan Water Investment Co., Limited, as the main body of such integration, has been approved, and the shareholder of the abovementioned four subsidiaries has changed from Hyflux Utility Ltd. to Yunshui Technology Co., Ltd.. As at the valuation reference date, the equity transfer agreement for this issue has been signed, while the industrial and commercial registration for such change has not been completed yet. This valuation does not consider the impact of the above matter on the valuation result.

6. The concession agreement of Kaifu Xinquan Water (Dafeng) Co., Ltd ("Kaifu Dafeng") stipulated that, since the operation commencement date of the concession area, the daily average water supply capacity thereof shall be not less than 70% (i.e. 14,000 m^3 per day) for the first year, and it shall be not less than 80% (i.e. 16,000 m^3 per day) for the second and third year, and the daily average water supply capacity from the fourth year to the fifteenth year shall be not less than 90% (i.e. 18,000 m^3 per day). The fourth supplementary agreement of the concession agreement had further stipulated that the minimum water supply capacity for 2011, 2012, 2013, 2014 and 2015 shall be 6,000 m^3 per day, 6,000 m^3 per day, 10,000 m^3 per day, 12,000 m^3 per day and 15,000 m^3 per day, respectively.

   Kaifu Dafeng is located in the Jiangsu Dafeng Ocean Economic Composite Development Zone* (江蘇省大豐海洋經濟綜合開發區), and due to its own fiscal difficulty, the Jiangsu Dafeng Ocean Economic Composite Development Zone failed to implement the minimum water supply capacity as agreed in the concession agreement of Kaifu Dafeng. Kaifu Dafeng has been actively communicating and negotiating with the relevant departments of local government and procure its implementation. In 2019, affected by the explosion incident of a chemical enterprise in Xiangshui County, Yancheng, numbers of enterprises in the zone were shut down, and the zone experienced even greater difficulty in its fiscal situation, making it more difficult to implement the minimum water supply capacity. Users of this report are advised to note that the calculation of Kaifu Xinquan Water (Dafeng) Co., Ltd for the coming years applying the income approach is based on the current situation, and has not taken into consideration the case in which the minimum water supply capacity could be implemented.

7. As at the valuation reference date, the book balance of the bank deposits of Kaifu Xinquan Water (Dafeng) Co., Ltd amounted to RMB727,184.34, among which, RMB454,799.21 belongs to the frozen deposits in the account of foreign currency funds, details of which are as follows:

Unit: RMB

No.	Deposit Bank	Account No.	Currency	Book Value in Foreign Currency (US$)	Exchange Rate at Valuation Reference Date	Book Value	Type
1	Dafeng Branch of Bank of China * (中國銀行大豐支行)	483258215931	US$	71,272.90	6.3757	454,414.63	capital account
2	Dafeng Branch of Bank of China * (中國銀行大豐支行)	483258235061	US$	60.32	6.3757	384.58	foreign debt account

   This valuation does not consider the impact of the above matter on the valuation result.

   As at the valuation reference date, as for the monetary funds of Kaifu Xinquan Water (Changshu) Co., Ltd, the book balance of its other monetary funds amounted to RMB1,542,569.89, which is the guarantee deposits for bank borrowings and belongs to restricted funds, and it is pledged for sewage charges right. This valuation does not consider the impact of the above matter on the valuation result.

8. As at the valuation reference date, the book value of the projects under construction of Kaifu Xinquan Water (Changshu) Co., Ltd amounted to RMB116,699.86. This amount represents the survey and geophysical exploration fees, safety and health evaluation fees, stamp duties and other fees arising from the early stage of establishment of the sludge carbonization and resource recycling project. It is verified that the construction of such project under construction will not continue in the future, and therefore it is evaluated as zero in this valuation.

9. The valuation conclusions in the report reflect the market value of the valuation target for the purpose of this valuation on the basis of an open market, and any fees or taxes that shall be borne in the ownership registration or change of relevant assets were not included and no provision for tax adjustment to the appreciation of the appraised value was made.

10. This valuation conclusion is to reflect the prevailing fair market price of the valuation target determined by the open market principle for the valuation purpose and at the reference date, without considering the impact on such conclusion due to the possible pledge, guarantee and litigation compensation to be undertaken and the incremental consideration might be charged by special parties.

11. This valuation report is based on the information provided by the principal and the appraised entity who shall be responsible for the authenticity, legality and integrity of the information provided by them. The assets valuation institutions and the asset valuer shall be legally responsible for the valuation conclusion made on this basis.

12. This valuation has not taken into consideration the premium and discount caused by factors such as controlling interest and minority interest.

13. This valuation has not taken into consideration the impact of liquidity of the equity interests on the valuation target.

14. The valuation conclusion is arrived at on the premise of the valuation assumptions and only limited to the purpose of this valuation. When the operating environment which the appraised entity is dependent on for business undergoes significant changes, the asset valuation professionals shall not be responsible for deriving different valuation conclusion due to significant changes in the condition precedent and assessment basis.

XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT

1. The valuation report may only be used according to the objectives and purposes as stated herein, and only be used by users expressly stated herein.

2. The asset appraisal agency and its asset valuers shall not bear responsibilities if the principal or other users of the asset valuation report fail(s) to use the asset valuation report in accordance with the provisions of laws and administrative regulations and within scope of use specified in the asset valuation report.

3. Except for the principal, other users of the asset valuation report designed in the asset valuation engagement contract and users of the asset valuation report stipulated by laws and administrative regulations, any other institutions or individuals shall not become the users of the asset valuation report.

4. The users of the asset valuation report should correctly interpret the valuation conclusion, which is not equivalent to the realisable value of the valuation target and should not be regarded as a guarantee for the realisable value of the valuation target.

XIII. DATE OF VALUATION REPORT

The valuation report is dated 15 August 2022.

Vocation (Beijing) International Assets Appraisal Co., Ltd.

The signature of the asset valuers: ______________________	Beijing, China
The signature of the asset valuers: ______________________	15 August 2022

Below are the extractions from the respective Explanatory Notes to the Valuation Reports of the Project Companies

A KAIFU XINQUAN WATER (DAFENG) CO., LTD

I. ASSUMPTIONS FOR INCOME FORECAST

(I) Basic Assumptions

1. Transaction assumption.

Transaction assumption assumes that the valuation subject and the assets and liabilities to be valued are already in the course of transaction and the asset valuer carries out the valuation based on a simulated market which involves the transaction conditions. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

2. Open market assumption.

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

3. Asset going-concern assumption.

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

4. Corporate going-concern assumption.

The corporate going-concern assumption assumes that businesses of the appraised entity will continuously operate and maintain the same operation method as its currently operates.

(II) General Assumptions

1. It is assumed that there are no major changes in the country's current relevant laws and regulations, administrative policies, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located;

2. It is assumed that the operations of the appraised entity will be in compliance with and not against the national laws and regulations during the income forecast period;

3. Except those laws and regulations already enacted or enacted but not yet enforced by the government on the Valuation Reference Date which affect the operations of the appraised entity, it is assumed that there are no significant changes in the laws and regulations related to the operations of the appraised entity during the income period;

4. It is assumed that from the Valuation Reference Date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material effects on the business condition of the appraised entity during the income period (considering the changes to the interest rate between the Valuation Reference Date and the report date);

5. It is assumed that from the Valuation Reference Date, there are no force majeure or unforeseeable events affecting the operations of the appraised entity;

6. In respect of the actual utilization and operation of the appraised entity's assets as of the Valuation Reference Date, it is assumed that the appraised entity will continue to operate and its assets will continue to be used in the income forecast period;

7. Save for the accounting standards issued but not yet implemented, it is assumed that the accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the Valuation Reference Date in material respects;

8. It is assumed that the operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there are no significant changes during the income forecast period to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the Valuation Reference Date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

9. It is assumed that the information provided by the principal and the appraised entity are true, complete, reliable, and there are no other defects or contingencies which may affect the valuation conclusions that have not been notified by the principal/entity under valuation as they should have been and that remain unknown to the asset valuation professionals after the performance of the requisite valuation procedures;

10. It is assumed that there will be no litigation, pledge or guarantee etc., that will cause material effect to the business performance of the appraised entity during the income forecast period.

(III) Specific Assumptions

1. Except for the fixed assets investments for which there is definite evidence as of the Valuation Reference Date showing that the production capacity will change subsequently, it is assumed that the appraised entity will not make significant investment activities on fixed assets that will affect its operations during the income forecast period, and its production capacity will be estimated based on the status as of the Valuation Reference Date;

2. In this valuation, the impact of the external equity investments made by the appraised entity following the Valuation Reference Date on its value is not considered;

3. It is assumed that the amount of taxable income and the total profits of the appraised entity will be consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period;

4. It is assumed that during the income forecast period, the appraised entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

5. It is assumed that the enterprise performs an orderly renewal of its long-term assets, such as fixed assets, based on their normal economic life;

6. It is assumed that the appraised entity will have steady cash inflows and cash outflows during the income forecast period, without a burst of inflows to be recognized as receipt at a certain point in the year.

In accordance with the requirements of the asset valuation, the valuers have determined that these assumptions are established as of the Valuation Reference Date, and deduce the corresponding valuation conclusions based on these assumptions. If the future economic environment changes greatly or other assumptions are not established, the valuation results will change greatly.

The valuation conclusions by the income approach in this valuation report is established as at the Valuation Reference Date under the above assumptions. When the above assumptions change greatly, the signed asset valuers and this valuation agency will not assume the responsibility of deriving different valuation conclusions due to the change of assumptions.

(IV) Selection of Income Model

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the Valuation Reference Date, and select the discounted corporate free cash flows model as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows in the next few years, summing up after its discounting by using the appropriate discount rate.

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

In the income model, the following matters need to be further explained:

(1) Calculation of corporate free cash flows

Corporate free cash flows in the forecast period = net profit after tax + depreciation and amortization + finance cost after tax − capital expenditure − changes in working capital

(2) Calculation of weighted average capital cost

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the corporate free cash flows and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is:

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

Wherein: E: Market value of equity;

D: Market value of debt;

K_e: Cost of equity capital;

K_d: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital (Ke) is calculated according to the CAPM model commonly used in the world. The calculation formula is:

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

Wherein: R_f: Risk-free rate of return;

MRP: Market risk premium;

β: System risk coefficient of equity;

R_c: Enterprise-specific risk adjustment coefficient.

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

The main business value of the appraised entity refers to the value of the operating assets of the enterprise.

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

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

Wherein: P: Value of operating assets of the enterprise as at the Valuation Reference Date;

$FCFF_i$: Expected corporate free cash flows of the enterprise in the coming i year after the Valuation Reference Date;

$FCFF_n$: Corporate free cash flows of the enterprise during the recovery period;

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

n: Income period;

i: The coming i year of the forecast period.

(4) Scope of non-operating and surplus assets

In the model, the scope of non-operating and surplus assets includes surplus assets and non-operating assets, accordingly, the value of other assets is equal to the sum of surplus assets value and non-operating assets value.

① *Surplus assets and non-operating assets*

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

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

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

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

(5) Scope of non-operating and surplus liabilities

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

(6) Calculation of market value of entire shareholders' equity

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

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

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

(V) Determination of Future Income

1. Determination of the subject and basis of income in the future income forecast

The main business of Kaifu Xinquan Water (Dafeng) Co., Ltd includes production and supply of industrial tap water. Considering the rationality of the income forecast, we determine that the subject of income of the appraised entity during the income period is the subject of the basis in the single statement of the appraised entity, and the basis of income amount is the corporate free cash flows in the forecast period.

2. Income forecast

Kaifu Xinquan Water (Dafeng) Co., Ltd is mainly engaged in production and supply of industrial tap water. According to the water fee report and concession agreement provided by the appraised entity for historical years, the operating income from 2019 to December 2021 is as follows:

			Historical Years		
Products	**Year/Item**	**Unit**	**2019**	**2020**	**2021**
Revenue from supply operation	Designed capacity	m^3/year	7,300,000.00	7,300,000.00	7,300,000.00
	Minimum water supply capacity	m^3/year	6,570,000.00	6,570,000.00	6,570,000.00
	Actual supply capacity	tonne	3,392,056.68	2,562,090.00	2,355,099.00
	Proportion of actual supply capacity to designed capacity	%	51.63	39.00	35.85
	Unit price of water	RMB/tonne	1.45	2.34	1.60
	Sales revenue	RMB	4,928,630.08	5,990,365.46	3,772,731.39
Total			4,928,630.08	5,990,365.46	3,772,731.39

The main indicators involved in forecast of future income of Kaifu Xinquan Water (Dafeng) Co., Ltd are the industrial tap water supply, unit price of industrial tap water, etc. Determination of industrial tap water supply: as affected by the policies in the region, Kaifu Xinquan Water (Dafeng) Co., Ltd experienced a significant decline in water supply in recent years. According to the enterprise interview, data collection and on-site investigation, the forecast for future water supply is mainly determined by reference to the water supply in 2021. Determination of unit price of industrial tap water: according to the Notice on Price Adjustment to Industrial Water (Da Shi Ban [2019] No. 17) (《關於工業用水價格調整的通知》(大石辦[2019]17號)), the document from Dafeng Port Petrochemical New Materials Industrial Park, it agreed to adjust the unit price of industrial water in the park to RMB1.65/tonne; in addition, according to the statistics on historical annual water expense settlement provided by the enterprise, the unit price of future industrial water in the forecast is comprehensively determined to be RMB1.65/tonne.

Through the above calculation, the income of Kaifu Xinquan Water (Dafeng) Co., Ltd to be generated in the future income period is estimated, details of which shall be referred to the revenue forecast.

3. *Forecast of operating costs*

The details for operating costs of Kaifu Xinquan Water (Dafeng) Co., Ltd from 2017 to September 2020 are as follows:

Item	Unit	2019	2020	2021
Total operating costs	RMB'0,000	340.22	270.19	253.65

The cost items of production and supply of tap water mainly include material expenses, repair expenses, electricity expenses, employee compensations, intangible assets amortization, etc. When calculating, the cost items needs to be distinguished. The cost items of Kaifu Xinquan Water (Dafeng) Co., Ltd in the income period are estimated as follows:

(1) Considering that the material expenses, repair expenses, electricity expenses, inspection expenses, equipment expenses, sludge disposal expenses and other expenses have relatively strong relevance with water supply, thus they are calculated by reference to the various unit costs of water supply in historical years.

(2) The amortization of intangible assets is determined by reference to the amount incurred in 2020 and 2021 and the current depreciation and amortization policies of the appraised entity.

(3) The wage and welfare expenses are based on the amount incurred in 2021, and are calculated by reference to the changes in the average wages of urban non-private entities in Jiangsu province over the years and occurrence of enterprises in historical years for the forecast period, and will increase at a growth rate of 7% after the forecast period.

Through the above calculation, the operating cost items of Kaifu Xinquan Water (Dafeng) Co., Ltd in the income period are estimated. Please refer to the main business cost calculation table for details.

4. Forecast of tax and surcharges

The enterprise is a general taxpayer of value-added tax. The applicable value-added tax rate in the forecast period is 3%. The value-added tax payable in the future years is mainly calculated based on the business income of the enterprise in the future, and the value-added tax payable is calculated. The urban construction tax and education fee surcharge tax are based on turnover tax with tax rates of 5% and 5%, respectively.

The property tax and land tax are calculated according to the current tax rate; the stamp tax is calculated by reference to the proportion of historical year and income. Please refer to the schedule for details.

5. Forecast of administrative expenses

Administrative expenses mainly include business entertainment expenses, intermediary agency expenses, office expenses, postage, vehicle expenses, travel expenses, business traffic expenses, labour expenses, depreciation expenses, wages etc. The details for historical years are as follows:

Item	2019	2020	January to December 2021
Fixed part	227.94	2,254.02	3,063.53
Depreciation	227.94	2,254.02	3,063.53
Amortization of expenses			
Variable part	988,705.12	648,257.27	790,871.79
Wages	249,049.41	310,913.45	369,208.15
Welfare expenses	1,497.00		
Labor union funds	5,331.50	6,101.80	5,932.94
Employee education expenses		1,760.00	3,500.00
Housing provident funds	21,660.00	28,169.00	35,888.00
Social security	60,794.67	26,838.61	95,006.62
Business entertainment expenses	50,858.00	26,539.00	29,700.00
Intermediary agency expenses	5,900.00	7,000.00	9,000.00
Office expenses	22,506.54	21,073.46	20,001.78
Postage	898.00	1,419.95	1,019.00
Vehicle expenses	7,785.00	14,035.00	15,014.21
Travel expenses	14,595.00	1,607.00	1,823.09
Business traffic expenses	79,550.00	96,000.00	96,000.00
Labor expenses	106,800.00	106,800.00	106,800.00
Others — consulting	361,200.00		
Greening expenses			1,978.00
System maintenance expenses	280.00		
Total	988,933.06	650,511.29	793,935.32

The valuation calculates various administrative expenses based on the historical occurrence of the appraised entity, as follows:

(1) Business entertainment expenses, intermediary agency expenses, office expenses, postage, vehicle expenses, travel expenses, business traffic expenses and labour expenses are calculated according to the level of the amount incurred in the most recent year.

(2) The assessment of welfare and employee education expenses is based on the proportion of the relevant expenses in the enterprise's historical years to the employee's salary as the multiplier, and the future employee's salary as the base.

(3) Depreciation and amortization are predicted according to the original value of fixed assets and intangible assets and the enterprise's amortization policy.

After implementing the above analysis, the specific forecast results of the administrative expenses forecast are shown in the administrative expenses forecast table.

6. Forecast of financial expenses

Historical annual financial expenses of the appraised entity are as follows:

Item/Year	**2019**	**2020**	**January to December 2021**
Interest income	-16,187.71	-11,109.53	-14,273.85
Interest expense	749,180.78	592,590.93	461,862.25
Service charges	8,754.22	5,724.54	6,982.64
Exchange gains and losses	275,979.56	-1,065,583.53	-1,072,912.94
Total	1,017,726.85	-478,377.59	-618,341.90

The valuation forecasts interest expenses based on enterprise's borrowings as at the reference date, and bank charges are calculated based on historical annual averages.

Please refer to the schedule for the specific forecast results.

7. *Calculation of depreciation and amortization*

Through communication with the company's finance manager, the company does not have plans to invest in additional fixed assets and capital expenditure in future years will mainly be for the replacement of existing fixed assets. Based on the most recent depreciation and amortisation as at the valuation reference date, depreciation and amortisation are forecasted for future operating periods.

Currency Unit: RMB

Year	2022	2023	2024	2025	2026	2027
Depreciation	4,032.09	4,032.09	4,032.09	2,518.69	2,388.14	2,388.14
Amortization	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52
Total	697,964.61	697,964.61	697,964.61	696,451.21	696,320.66	696,320.66

Year	2028	2029	2030	2031	2032	2033
Depreciation	2,388.14	2,388.14	2,388.14	2,388.14	2,388.14	2,388.14
Amortization	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52
Total	696,320.66	696,320.66	696,320.66	696,320.66	696,320.66	696,320.66

Year	2034	2035	2036	2037	2038	2039
Depreciation	2,388.14	2,388.14	2,388.14	2,388.14	2,388.14	2,388.14
Amortization	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52	693,932.52
Total	696,320.66	696,320.66	696,320.66	696,320.66	696,320.66	696,320.66

Year	2040	2041	2042
Depreciation	2,388.14	2,388.14	9,552.56
Amortization	693,932.52	693,932.52	703,438.45
Total	696,320.66	696,320.66	712,991.01

8. *Forecast of capital expenditures*

Capital expenditure includes two aspects: (1) capital expenditure on new assets that need new investment to increase production capacity; (2) the renewal capital expenditure when the long-term assets reach the economic service life to maintain the operation and production capacity of the enterprise.

Capital expenditure = new capital expenditure + updated capital expenditure

According to the interview with the enterprise, there was no newly built project of the appraised entity, it is unnecessary to consider the future additional capital expenditure in the valuation; for the updated capital expenditure, the amount of the updated capital expenditure and the time point of the updated capital expenditure are predicted in detail according to the scale of the stock assets on the valuation reference date, the economic service life and the service life of each category of assets.

Currency Unit: RMB

Year	2022	2023	2024	2025	2026	2027
Electronic and other equipment	0.00	0.00	0.00	0.00	12,310.00	0.00
Total	0.00	0.00	0.00	0.00	12,310.00	0.00

Year	2028	2029	2030	2031	2032	2033
Electronic and other equipment	0.00	0.00	0.00	12,310.00	0.00	0.00
Total	0.00	0.00	0.00	12,310.00	0.00	0.00

Year	2034	2035	2036	2037	2038	2039
Electronic and other equipment	0.00	0.00	12,310.00	0.00	0.00	0.00
Total	0.00	0.00	12,310.00	0.00	0.00	0.00

Year	2040	2041	2042
Electronic and other equipment	0.00	12,310.00	0.00
Total	0.00	12,310.00	0.00

9. Calculation of income tax

The applicable income tax rate of Kaifu Xinquan Water (Dafeng) Co., Ltd is 25%, the valuation considers to perform calculation at a tax rate of 25%.

10. Estimation of increase in working capital

(1) Definition and calculation method of increase in working capital

The increase in working capital refers to the cash used to obtain the business credit of others and the cash and inventory needed to maintain in normal operation with the change of business activities of the enterprise; At the same time, in economic activities, the provision of commercial credit can correspondingly reduce the immediate payment of cash. The increased amount of working capital refers to the additional amount of working capital required by an enterprise to maintain its sustainable operation capability without changing its current main business conditions.

The scope of working capital usually includes the minimum cash holdings required for normal operation, the purchase of product inventory, the funds required for advance payment of purchase payments (notes receivable, accounts receivable, prepayments) on behalf of customers, as well as notes payable, accounts payable, advances received, etc. The occurrence of the above items usually has a relatively stable proportional relationship with the operating income or operating costs. Other accounts receivable and other accounts payable need to be specifically screened and determined according to their relevance to the estimated operating business (among which the transactions that are not related to the main business or temporary are regarded as non-operating). Generally, taxes payable and payroll payable are temporarily deferred and their turnover is fast. The forecast year is determined according to the forecast data of each year.

The increase in working capital in this explanation is:

Increase in working capital = working capital requirements in the current period – working capital requirements in the previous period

Working capital requirements = minimum cash holdings + average balance of receivables + average balance of inventory – average balance of payables

Of which:

The occurrence of the minimum cash holdings in the current year is related to the expected cash-pay cost in the next year. This valuation is based on the historical data provided by the enterprise and the understanding of the operating cash holdings of the enterprise. It is estimated that the number of days of cash turnover of the enterprise is about 30 days. It is assumed that the minimum cash holdings required to maintain the normal operation of the enterprise is 30 days of cash demand.

Annual cash-pay cost = operating cost of the next year in the forecast period + tax of the next year in the forecast period + total expenses of the next year in the forecast period – total non-cash-pay cost expenses (depreciation and amortization) of the next year in the forecast period

Average balance of receivables = predicted sales revenue in the current period/average turnover rate of receivables in the forecast period

Average balance of inventory = predicted cost of sales in the current period/average inventory turnover rate in the forecast period

Average balance of payables = predicted cost of sales/average turnover rate of payables in the forecast period

(2) Calculation procedure of working capital

Before forecasting the working capital, the professional valuers should first understand, verify and analyze the occurrence of various items related to the calculation of the increase in working capital and the abnormal factors therein, and eliminate them if necessary. On this basis, items that have a significant impact on the working capital, such as accounts receivable, accounts payable and inventories, are mainly calculated based on the turnover rate of such items in the previous years and the actual situation of the enterprise.

After the above analysis, the working capital forecast is as follows:

Currency Unit: RMB

Item	December 2021	2022	2023	2024	2025	2026
Working capital	3,875,141.15	5,083,637.54	5,079,213.52	5,074,479.82	5,069,483.28	5,064,724.36
Increase in working capital		1,208,496.39	-4,424.02	-4,733.70	-4,996.53	-4,758.92

Item	2027	2028	2029	2030	2031	2032
Working capital	5,065,215.45	5,065,583.77	5,065,860.00	5,066,067.18	5,066,222.56	5,066,339.10
Increase in working capital	491.09	368.32	276.24	207.18	155.38	116.54

Item	2033	2034	2035	2036	2037	2038
Working capital	5,066,426.50	5,066,492.06	5,066,541.22	5,066,578.09	5,066,605.75	5,066,626.49
Increase in working capital	87.40	65.55	49.16	36.87	27.65	20.74

Item	2039	2040	2041	2042
Working capital	5,066,642.05	5,066,653.71	5,066,662.46	5,064,424.54
Increase in working capital	15.56	11.67	8.75	-2,237.93

(VI) Determination of Discount Rate

On the basis of estimating the corporate free cash flows of the appraised entity in the prediction period, we calculated the weighted average cost of capital (WACC) consistent with its caliber, and the specific calculation formula is as follows:

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

Wherein: WACC — Weighted average cost of capital;

K_d — Cost of interest-bearing debt capital;

K_e — Cost of equity capital;

D — Value of interest-bearing debt;

E — Equity value;

T — Income tax rate implemented by the appraised entity.

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

1. Calculation of cost of equity capital (K_e)

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

That is:

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

Wherein: K_e: Cost of equity capital;

R_f: Risk-free rate of return;

β: equity-system risk coefficient;

MRP: Market risk premium;

R_c: Enterprise-specific risk adjustment coefficient.

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

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

In this valuation, the index value of risk-free rate of return calculated is 3.35%.

(2) Calculation of market risk premium

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

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

In this valuation, the index value of market risk premium calculated is 6.75%.

(3) Calculation of β

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

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

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

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

Wherein: β_L: Beta with financial leverage;

β_U: Beta without financial leverage;

T: Income tax rate of the appraised entity;

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

Short name of securities	Consider beta	d	e	d/e	t	Not consider beta
Jiangnan Water (江南水務)	0.9328	85,539.30	596,664.17	0.14	25.00%	0.8422
Nanning Waterworks (綠城水務)	0.8037	981,341.76	475,039.52	2.07	15.00%	0.2916
Hongcheng Waterworks (洪城水業)	0.6639	648,697.24	776,560.29	0.84	15.00%	0.3882
Average						**0.5074**

Source: Wind information platform

Through the above calculation, the comprehensive β index value without financial leverage of the appraised entity is 0.5074.

Taking the average capital structure of comparable listed companies of 71.86% as the target capital structure D/E of the appraised entity. The income tax rate applied to the appraised entity as at the valuation reference date is 25%.

By substituting the above determined parameters into the equity-system risk coefficient formula, the equity-system risk coefficient of the appraised entity is calculated, and the β index value of the enterprise from 2022 to 2042 is finally determined to be 0.7808.

(4) Adjustment of enterprise-specific risk

Due to the different operating environment between the selected sample listed companies and the appraised entity, and taking into account the business risk of the appraised entity, the enterprise-specific risk is adjusted to 1.5%.

(5) Calculation of equity capital cost

Through the above calculation, based on below formula:

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

the equity capital cost of the appraised entity from 2022 to 2042 is calculated to be 10.12%.

2. Cost of interest-bearing debt capital

According to the quoted interest rate of the loan market (LPR for more than 5 years) authorized by the National Interbank Funding Center, the cost of interest-bearing debt capital is determined to be 4.62%.

3. Determination of WACC

Through the determination of the above indicators, based on below formula:

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

the WACC is calculated, and its specific result from 2022 to 2042 is 7.34%.

II. CALCULATION PROCESS AND RESULTS OF ASSESSED VALUE

Based on the above estimates, we estimated the business value of the appraised entity, and the specific estimated results from 2022 to 2042 are as follows:

Currency Unit: RMB0'000

Item	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Corporate free cash flows	-28.49	84.34	75.33	65.67	54.61	55.73
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Value for forecast period	-27.50	75.85	63.11	51.26	39.71	37.76

Item	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Corporate free cash flows	56.06	56.30	56.48	55.38	56.72	56.79
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Value for forecast period	35.38	33.10	30.94	28.27	26.97	25.16

Item	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**
Corporate free cash flows	56.85	56.89	55.70	56.95	57.23	50.64
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Value for forecast period	23.46	21.88	19.95	19.01	17.71	16.51

Item	**2040**	**2041**	**2042**	**Final value recovery**
Corporate free cash flows	56.99	55.77	57.23	506.44
Discount rate	7.34%	7.34%	7.34%	7.34%
Value for forecast period	15.38	14.02	13.41	114.51
Value of principal businesses	**695.83**			

III. VALUATION AND CALCULATION TABLE BY THE INCOME APPROACH

Currency Unit: RMB'0,000

Item	Year of Forecast					
	2022	2023	2024	2025	2026	2027
Operating income	377.27	377.27	377.27	377.27	377.27	377.27
Operating costs	260.89	265.77	270.99	276.57	281.99	281.58
Taxes and surcharges	7.15	7.15	7.15	7.15	7.15	7.15
Selling expenses	—	—	—	—	—	—
Administrative expenses	79.22	82.80	86.63	90.57	94.95	94.95
Financial expenses	50.52	50.52	50.52	50.52	50.52	50.52
Assets impairment loss	—	—	—	—	—	—
Other income	5.66	5.66	5.66	5.66	5.66	5.66
Total profit	-14.85	-23.31	-32.36	-41.88	-51.68	-51.26
Income tax expenses	—	—	—	—	—	—
Net profit	-14.85	-23.31	-32.36	-41.88	-51.68	-51.26
Depreciation and amortisation	69.80	69.80	69.80	69.65	69.63	69.63
Financial expenses after tax	37.41	37.41	37.41	37.41	37.41	37.41
Differentiated cash flows generated from deductible input tax	—	—	—	—	—	—
Capital expenditure	—	—	—	—	1.23	—
Increase in working capital	120.85	-0.44	-0.47	-0.50	-0.48	0.05
Corporate free cash flows	-28.49	84.34	75.33	65.67	54.61	55.73
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Time since the last discount period (years)	0.5	1.0000	1.0000	1.0000	1.0000	1.0000
Discount coefficient for the current period	0.9652	0.8992	0.8378	0.7805	0.7272	0.6775
Value for forecast period	-27.50	75.85	63.11	51.26	39.71	37.76

Item	2028	2029	2030	2031	2032	2033
Operating income	377.27	377.27	377.27	377.27	377.27	377.27
Operating costs	281.27	281.03	280.86	280.73	280.63	280.56
Taxes and surcharges	7.15	7.15	7.15	7.15	7.15	7.15
Selling expenses	—	—	—	—	—	—
Administrative expenses	94.95	94.95	94.95	94.95	94.95	94.95
Financial expenses	50.52	50.52	50.52	50.52	50.52	50.52
Assets impairment loss	—	—	—	—	—	—
Other income	5.66	5.66	5.66	5.66	5.66	5.66
Total profit	-50.95	-50.72	-50.55	-50.41	-50.32	-50.24
Income tax expenses	—	—	—	—	—	—
Net profit	-50.95	-50.72	-50.55	-50.41	-50.32	-50.24
Depreciation and amortisation	69.63	69.63	69.63	69.63	69.63	69.63
Financial expenses after tax	37.41	37.41	37.41	37.41	37.41	37.41
Differentiated cash flows generated from deductible input tax	—	—	—	—	—	—
Capital expenditure	—	—	—	1.23	—	—
Increase in working capital	0.04	0.03	0.02	0.02	0.01	0.01
Corporate free cash flows	56.06	56.30	56.48	55.38	56.72	56.79
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Time since the last discount period (years)	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Discount coefficient for the current period	0.6312	0.5880	0.5478	0.5104	0.4755	0.4430
Value for forecast period	35.38	33.10	30.94	28.27	26.97	25.16

Item	2034	2035	2036	2037	2038	2039
Operating income	377.27	377.27	377.27	377.27	377.27	377.27
Operating costs	280.50	280.46	280.43	280.41	280.39	280.37
Taxes and surcharges	7.15	7.15	7.15	7.15	7.15	7.15
Selling expenses	—	—	—	—	—	—
Administrative expenses	94.95	94.95	94.95	94.95	94.95	94.95
Financial expenses	50.52	50.52	50.52	50.52	50.52	50.52
Assets impairment loss	—	—	—	—	—	—
Other income	5.66	5.66	5.66	5.66	5.66	5.66
Total profit	-50.19	-50.15	-50.12	-50.09	-50.07	-50.06
Income tax expenses	—	—	—	—	—	—
Net profit	-50.19	-50.15	-50.12	-50.09	-50.07	-50.06
Depreciation and amortisation	69.63	69.63	69.63	69.63	69.63	69.63
Financial expenses after tax	37.41	37.41	37.41	37.41	37.41	37.41
Differentiated cash flows generated from deductible input tax	—	—	—	—	—	—
Capital expenditure	—	—	1.23	—	—	—
Increase in working capital	0.01	0.00	0.00	0.00	0.00	0.00
Corporate free cash flows	56.85	56.89	55.70	56.95	56.97	56.98
Discount rate	7.34%	7.34%	7.34%	7.34%	7.34%	7.34%
Time since the last discount period (years)	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Discount coefficient for the current period	0.4127	0.3845	0.3582	0.3337	0.3109	0.2897
Value for forecast period	23.46	21.88	19.95	19.01	17.71	16.51

Item	2040	2041	2042	Final value recovery
Operating income	377.27	377.27	377.27	
Operating costs	280.36	280.36	281.30	
Taxes and surcharges	7.15	7.15	7.15	
Selling expenses	—	—	—	
Administrative expenses	94.95	94.95	95.66	
Financial expenses	50.52	50.52	50.52	
Assets impairment loss	—	—	—	
Other income	5.66	5.66	5.66	
Total profit	-50.05	-50.04	-51.71	
Income tax expenses	—	—	—	
Net profit	-50.05	-50.04	-51.71	
Depreciation and amortisation	69.63	69.63	71.30	
Financial expenses after tax	37.41	37.41	37.41	
Differentiated cash flows generated from deductible input tax	—	—	—	
Capital expenditure	—	1.23	—	
Increase in working capital	0.00	0.00	-0.22	
Corporate free cash flows	56.99	55.77	57.23	397.79
Discount rate	7.34%	7.34%	7.34%	7.34%
Time since the last discount period (years)	1.0000	1.0000	1.0000	1.0000
Discount coefficient for the current period	0.2699	0.2514	0.2342	0.2261
Value for forecast period	15.38	14.02	13.41	114.51
Value of principal businesses			**695.83**	
Net liabilities of non-operating assets			1,535.64	
Overall value of the enterprise			**2,291.63**	
Interest-bearing debts			1,073.98	
Market value of entire equity of shareholders			**1,157.49**	

B KAIFU XINQUAN WATER (TAIZHOU) CO., LTD

I. ASSUMPTIONS FOR INCOME FORECAST

(I) Basic Assumptions

1. Transaction assumption.

Transaction assumption assumes that the valuation subject and the assets and liabilities to be valued are already in the course of transaction and the asset valuer carries out the valuation based on a simulated market which involves the transaction conditions. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

2. Open market assumption.

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

3. Asset going-concern assumption.

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

4. Corporate going-concern assumption.

The corporate going-concern assumption assumes that businesses of the appraised entity will continuously operate and maintain the same operation method as its currently operates.

(II) General Assumptions

1. It is assumed that there are no major changes in the country's current relevant laws and regulations, administrative policies, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located;

2. It is assumed that the operations of the appraised entity will be in compliance with and not against the national laws and regulations during the income forecast period;

3. Except those laws and regulations already enacted or enacted but not yet enforced by the government on the Valuation Reference Date which affect the operations of the appraised entity, it is assumed that there are no significant changes in the laws and regulations related to the operations of the appraised entity during the income period;

4. It is assumed that from the Valuation Reference Date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material effects on the business condition of the appraised entity during the income period (considering the changes to the interest rate between the Valuation Reference Date and the report date);

5. It is assumed that from the Valuation Reference Date, there are no force majeure or unforeseeable events affecting the operations of the appraised entity;

6. In respect of the actual utilization and operation of the appraised entity's assets as of the Valuation Reference Date, it is assumed that the appraised entity will continue to operate and its assets will continue to be used in the income forecast period;

7. Save for the accounting standards issued but not yet implemented, it is assumed that the accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the Valuation Reference Date in material respects;

8. It is assumed that the operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there are no significant changes during the income forecast period to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the Valuation Reference Date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

9. It is assumed that the information provided by the principal and the appraised entity are true, complete, reliable, and there are no other defects or contingencies which may affect the valuation conclusions that have not been notified by the principal/entity under valuation as they should have been and that remain unknown to the asset valuation professionals after the performance of the requisite valuation procedures;

10. It is assumed that there will be no litigation, pledge or guarantee etc., that will cause material effect to the business performance of the appraised entity during the income forecast period.

(III) Specific Assumptions

1. Except for the fixed assets investments for which there is definite evidence as of the Valuation Reference Date showing that the production capacity will change subsequently, it is assumed that the appraised entity will not make significant investment activities on fixed assets that will affect its operations during the income forecast period, and its production capacity will be estimated based on the status as of the Valuation Reference Date;

2. In this valuation, the impact of the external equity investments made by the appraised entity following the Valuation Reference Date on its value is not considered;

3. It is assumed that the amount of taxable income and the total profits of the appraised entity will be consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period;

4. It is assumed that during the income forecast period, the appraised entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

5. It is assumed that the enterprise performs an orderly renewal of its long-term assets, such as fixed assets, based on their normal economic life;

6. It is assumed that the appraised entity will have steady cash inflows and cash outflows during the income forecast period, without a burst of inflows to be recognized as receipt at a certain point in the year.

In accordance with the requirements of the asset valuation, the valuers have determined that these assumptions are established as of the Valuation Reference Date, and deduce the corresponding valuation conclusions based on these assumptions. If the future economic environment changes greatly or other assumptions are not established, the valuation results will change greatly.

The valuation conclusions by the income approach in this valuation report is established as at the Valuation Reference Date under the above assumptions. When the above assumptions change greatly, the signed asset valuers and this valuation agency will not assume the responsibility of deriving different valuation conclusions due to the change of assumptions.

(IV) Selection of Income Model

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the Valuation Reference Date, and select the discounted corporate free cash flows model of the enterprise as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows in the next few years, summing up after its discounting by using the appropriate discount rate.

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

In the income model, the following matters need to be further explained:

1. Calculation of corporate free cash flows

Corporate free cash flows in the forecast period = net profit after tax + depreciation and amortization + finance cost after tax – capital expenditure – changes in working capital

2. Calculation of weighted average capital cost

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the corporate free cash flows and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is:

$$\text{WACC} = K_e \times [E/(E + D)] + K_d \times (1 - T) \times [D/(E + D)]$$

Wherein: E: Market value of equity;

D: Market value of debt;

K_e: Cost of equity capital;

K_d: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital (Ke) is calculated according to the CAPM model commonly used in the world. The calculation formula is:

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

Wherein: R_f: Risk-free rate of return;

MRP: Market risk premium;

β : System risk coefficient of equity;

R_c: Enterprise-specific risk adjustment coefficient.

3. Calculation of the main business value of the appraised entity

The main business value of the appraised entity refers to the value of the operating assets of the enterprise.

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

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n}$$

Wherein: P: Value of operating assets of the enterprise as at the Valuation Reference Date;

F_i: Expected corporate free cash flows in the coming i year after the Valuation Reference Date;

F_n: Expected corporate free cash flows at the end of the forecast period;

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

n: Forecast period;

i: The coming i year of the forecast period;

g: Perpetual growth rate.

4. Scope of non-operating and surplus assets

In the model, the scope of non-operating and surplus assets includes long-term equity investment, surplus assets and non-operating assets, accordingly, the value of other assets is equal to the sum of long-term equity investment value, surplus assets value and non-operating assets value.

(1) Long-term equity investment refers to the external equity investment made by the enterprise. In general, the value of controlling long-term equity investment is determined in the following ways: the value of equity interest in investee held by the investor is measured at the estimated market value of entire shareholders' equity of long-term equity investment of the investor multiplying the shareholding percentage in the investee held by the investor; the value of non-controlling long-term equity investment is determined in the following ways: the value of non-controlling long-term equity investment that generate stable dividend income in historical years is measured by using dividend discount model, the value of non-controlling long-term equity investment that does not generate stable income in historical years is measured at the book value of the investee's net asset as at the Valuation Reference Date multiplying shareholding percentage.

(2) Surplus assets and non-operating assets

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

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

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

The valuation of long-term equity investment, surplus assets and non-operating assets is based on asset characteristics and conducted with different valuation methods.

5. Scope of non-operating and surplus liabilities

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

6. Calculation of market value of entire shareholders' equity

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

Market value of entire shareholders' equity = total value of the enterprise – value of interest-bearing debts

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

(V) Determination of Future Income

1. Determination of the subject and basis of income in the future income forecast

The main business of Kaifu Xinquan Water (Taizhou) Co., Ltd includes sewage treatment. The business of the appraised entity has strong competitiveness. Considering the rationality of the income forecast, we determine that the subject of income of the appraised entity during the income period is the subject of the basis in the statement of the parent company of the appraised entity, and the basis of income amount is the corporate free cash flows in the forecast period.

2. Income forecast

Kaifu Xinquan Water (Taizhou) Co., Ltd is mainly engaged in sewage treatment. According to the water fee report and concession agreement provided by the appraised entity for historical years, the operating income from 2018 to 2021 is as follows:

Name of products or services	Year/Item	Unit	Historical Years 2019	2020	January to December 2021
Operating income from sewage treatment	Designed capacity	m^3/year	7,300,000.00	7,300,000.00	7,300,000.00
(Phase I + Phase II + Phase III)	Minimum water supply capacity	m^3/year	1,460,000.00	1,460,000.00	1,460,000.00
	Actual treatment capacity	tonne	6,696,420.00	6,923,481.00	5,604,723.00
	Proportion of actual treatment capacity to designed capacity	%	91.73	94.84	76.78
	Unit price of water treatment	RMB/tonne	2.17	2.25	4.75
	Sales revenue	RMB	14,546,038.26	15,604,155.32	26,650,165.87
Total			14,546,038.26	15,604,155.32	26,650,165.87

The business of Kaifu Xinquan Water (Taizhou) Co., Ltd mainly includes two segments, i.e. income from sewage treatment and income from reclaimed water.

Among them: (1) The main indicators involved in the future income forecast of sewage treatment are sewage treatment volume and unit price of sewage treatment. For the determination of sewage treatment volume, according to the data statistics, the annual sewage treatment volume of the enterprise for historical years maintained relatively stable, therefore, the sewage treatment volume for each ten days of each month after 2022 is determined by reference to the average sewage treatment volume in history; for the determination of the unit price of sewage treatment, it is determined according to the approval documents from Taizhou Development and Reform Commission on the water fee of Kaifu Taizhou: Tai Fa Gai Han [2020] No. 212 and Tai Fa Gai Han [2021] No. 193, as well as the unit price of water fee determined by reference to the charge sheet provided by the enterprise; for the operation period, according to the BOT agreement, the operation period of the sewage treatment project is finally determined to be: from 25 September 2006 to 25 September 2026.

(2) The main indicators involved in the future income forecast of reclaimed water are the reclaimed water volume and the unit price of reclaimed water. The total scale of reclaimed water is 5,000m^3/d, of which the scale of phase I is 2,500m^3/d, of which the scale of industrial cooling cycle supplementary water treatment is 800m^3/d, the scale of peak washing process water treatment is 1,000m^3/d, and the scale of urban greening water treatment is 700m^3/d. The unit price of water treatment is calculated on the basis of the total cost considering the appropriate profit and other factors for the owners and the competent authorities' reference. Among them, the price for greening water treatment is provisionally set at RMB3.10/m^3 (tax inclusive) or RMB2.74/m^3 (tax exclusive), the price for industrial water treatment is provisionally set at RMB5.60/m^3 (tax inclusive) or RMB4.96/m^3 (tax exclusive).

Through the above calculation, the income of Kaifu Xinquan Water (Taizhou) Co., Ltd to be generated in the future income period is estimated, details of which shall be referred to the schedule.

3. *Forecast of operating costs*

The cost details of Kaifu Xinquan Water (Taizhou) Co., Ltd from 2019 to December 2021 are as follows:

Unit: RMB

Product or service	Item	Historical year 2019	2020	January to December 2021
	Wages	1,071,350.46	1,165,627.92	1,399,281.28
	Depreciation expenses	19,726.13	13,543.58	7,606.28
	Amortization of intangible assets	3,083,635.66	3,722,676.75	16,955,738.55
Phase I cost	Direct material expenses	2,385,935.17	2,467,095.14	2,279,846.04
	Electricity expenses	1,798,655.89	1,925,762.83	1,644,313.35
	Travel expenses	1,773.77	4,232.04	7,351.18
	Water and electricity expenses	90,202.92	74,380.22	16,562.95
	Communication expenses	18,803.62	16,200.33	-7,765.52
	Amortization of low-value consumables	17,963.52	6,150.02	6,725.66
	Machine and material consumption	160,075.84	273,166.19	203,759.14
	Insurance premium	37,704.89	34,962.24	32,468.84
	Labor expenses	2,830.00	4,550.00	3,482.48
	Inspection and detection expenses	100,400.00	43,206.63	74,338.70
	Reagent expenses	12,206.38	41,780.18	10,935.89
	Online monitoring and maintenance expenses	104,716.98	162,720.75	137,364.36
	Equipment renovation	11,650.49	71,678.59	133,699.11
	Sludge disposal expenses	785,175.14	814,557.60	573,172.05
	Technical service expenses	60,538.93	14,150.94	1,415.09
	Repair expenses	119,762.01	146,472.57	345,813.85
	Safety production expenses	31,578.12	100,655.20	91,414.81
	Others	56,603.77		-132.36
	Greening expenses		77,970.30	
	Freight and miscellaneous charges			20,754.72
	Handling charges		700.00	
Total		9,971,289.69	11,182,240.02	23,938,146.45

Wastewater treatment cost items mainly include material expenses, repair expenses, electricity expenses, sludge disposal expenses, service expenses, employee compensations, intangible assets amortization, etc. The cost items of Kaifu Xinquan Water (Taizhou) Co., Ltd in the income period are estimated as follows:

(1) Material expenses, machine and material consumptions, water and electricity expenses, monitoring and maintenance expenses and communication expenses are calculated according to the level of the amount incurred in most recent years.

(2) The depreciation of fixed assets and amortization of intangible assets are determined by reference to the amount incurred in 2021 and the current depreciation and amortization policies of the appraised entity.

(3) The wage and welfare expenses are based on the amount incurred in 2021, and are determined by reference to the enterprise's own growth rate for the forecast period, and will remain unchanged after the forecast period.

Through the above calculation, the operating cost items in the income period are estimated. Please refer to the main business cost calculation table for details.

4. Forecast of business tax and surcharges

The enterprise is a general taxpayer of value-added tax. The applicable value-added tax rates in the forecast period are 6% and 13%. The value-added tax payable in the future years is mainly calculated based on the business income of the enterprise in the future; The input tax of value-added tax is calculated according to the inspection expenses, sludge disposal expenses, operation service expenses, intermediary agency expenses, commercial insurance expenses, electricity expenses, tools and equipment, capital expenditures, etc. in the enterprise's future annual operating expenses, and the value-added tax payable is calculated.

The property tax and land tax are calculated according to the current tax rate; the stamp tax is calculated by reference to the proportion of historical year and income to calculate the business tax and surcharges in the forecast period. Please refer to the schedule for details.

5. *Forecast of administrative expenses*

Administrative expenses mainly include office expenses, welfare expenses, employee education expenses, travel expenses, intermediary agency expenses, repair expenses, commercial insurance expenses, amortization of low-value consumables, safety production expenses, business entertainment expenses, R&D expenses, depreciation expenses, etc.

Unit: RMB

Item	2019	2020	January to December 2021
Fixed part	5,466.30	9,312.39	11,024.51
Depreciation	5,466.30	9,312.39	11,024.51
Amortization of expenses			
Variable part	1,962,194.98	641,878.46	1,683,350.31
Wages	342,496.68	218,189.06	366,575.72
Welfare expenses	4,423.95	31,421.27	37,764.45
Labor union funds	3,873.64	1,247.29	175.63
Employee education expenses	55.00		
Housing provident funds	32,214.00	24,735.00	36,707.00
Social security	88,901.76	6,542.65	95,343.43
Business entertainment expenses	76,793.42	59,949.00	59,579.00
Intermediary agency expenses	439.62	4,245.28	9,905.66
Office expenses	26,465.64	52,932.03	38,189.43
Conference expenses	4,000.00	2,000.00	2,000.00
Traffic expenses	63,689.32		
Postage	2,825.46	2,887.67	2,801.83
Vehicle expenses	31,517.96	81,142.32	81,275.98
Repair expenses	1,261.90	2,275.23	0.00
Travel expenses	28,928.77	3,486.92	4,751.36
Labor expenses	124,232.42	136,426.28	139,126.28
Others — consulting	1,130,075.44		726,688.66
Amortization of low-value consumables		14,398.46	4,495.58
Greening expenses			77,970.30
Total	1,967,661.28	651,190.85	1,694,374.82

(1) Office expenses, travel expenses, intermediary agency expenses, repair expenses, amortization of low-value consumables, business entertainment expenses are calculated according to the level of the amount incurred in the most recent year.

(2) The assessment of welfare and employee education expenses is based on the proportion of the relevant expenses in the enterprise's historical years to the employee's salary as the multiplier, and the future employee's salary as the base.

(3) Depreciation and amortization are predicted according to the original value of fixed assets and intangible assets and the enterprise's amortization policy.

After implementing the above analysis, the specific forecast results of the administrative expenses forecast are shown in the administrative expenses forecast table.

6. Forecast of financial expenses

Historical financial expenses are as follows:

Unit: RMB

Item	**2019**	**2020**	**2021**
Interest income	-20,589.10	-5,978.90	-205,655.88
Interest expense	259,395.67	1,143,433.25	1,510,535.48
Service charges	3,613.75	3,239.20	3,387.00
Exchange gains and losses			-9,089.18
Total	242,420.32	1,140,693.55	1,299,177.42

The determination of the financial expenses of Kaifu Xinquan Water (Taizhou) Co., Ltd in the forecast period is based on the enterprise loan items and the interest rate level on the benchmark date.

Please refer to the schedule for the specific forecast results.

7. Calculation of depreciation and amortization

The non-cash expenditure items of Kaifu Xinquan Water (Taizhou) Co., Ltd in the future income period are depreciation. Depreciation items are recognized at the amount included in cost in the current year of the predicted income period.

According to the interview with the enterprise, the appraised entity has recently built new projects, so the depreciation of new assets in the future should be considered in this valuation; Update the asset depreciation to forecast the depreciation of the existing assets. The depreciation forecast in the detailed forecast period is predicted within the depreciation life according to the depreciation policy. No depreciation will be accrued if the depreciation life is exceeded but the economic service life is not reached.

Currency Unit: RMB

Year	**2022**	**2023**	**2024**	**2025**	**January to September 2026**
Depreciation	21,744.44	27,409.96	24,573.74	23,790.81	21,620.15
Amortization	11,659,539.25	11,659,539.25	11,659,539.25	11,659,539.25	8,744,654.44
Total	11,681,283.69	11,686,949.21	11,684,112.98	11,683,330.06	8,766,274.58

8. Forecast of capital expenditure

Capital expenditure includes two aspects: (1) capital expenditure on new assets that need new investment to increase production capacity; (2) the renewal capital expenditure when the long-term assets reach the economic service life to maintain the operation and production capacity of the enterprise.

Capital expenditure = new capital expenditure + updated capital expenditure

According to the interview with the enterprise, the newly built projects of the appraised entity need to be considered in the valuation; For the updated capital expenditure, the amount of the updated capital expenditure and the time point of the updated capital expenditure are predicted in detail according to the scale of the stock assets on the valuation reference date, the economic service life and the service life of each asset. The forecast is as follows:

Currency Unit: RMB

Year	**2022**	**2023**	**2024**	**2025**	**January to September 2026**
Electronic and other equipment	22,120.00	31,856.00	0.00	18,288.00	17,962.00
Total	22,120.00	31,856.00	0.00	18,288.00	17,962.00

9. Estimation of increase in working capital

(1) Definition and calculation method of increase in working capital

The increase in working capital refers to the cash used to obtain the business credit of others and the cash and inventory needed to maintain in normal operation with the change of business activities of the enterprise; At the same time, in economic activities, the provision of commercial credit can correspondingly reduce the immediate payment of cash. The increased amount of working capital refers to the additional amount of working capital required by an enterprise to maintain its sustainable operation capability without changing its current main business conditions.

The scope of working capital usually includes the minimum cash holdings required for normal operation, the purchase of product inventory, the funds required for advance payment of purchase payments (notes receivable, accounts receivable, prepayments) on behalf of customers, as well as notes payable, accounts payable, advances received, etc. The occurrence of the above items usually has a relatively stable proportional relationship with the operating income or operating costs. Other accounts receivable and other accounts payable need to be specifically screened and determined according to their relevance to the estimated operating business (among which the transactions that are not related to the main business or temporary are regarded as non-operating). Generally, taxes payable and payroll payable are temporarily deferred and their turnover is fast. The forecast year is determined according to the forecast data of each year.

The increase in working capital in this explanation is:

Increase in working capital = working capital requirements in the current period − working capital requirements in the previous period

Working capital requirements = minimum cash holdings + average balance of receivables + average balance of inventory − average balance of payables

Of which:

The occurrence of the minimum cash holdings in the current year is related to the expected cash-pay cost in the next year. This valuation is based on the historical data provided by the enterprise and the understanding of the operating cash holdings of the enterprise. It is estimated that the number of days of cash turnover of the enterprise is about 30 days. It is assumed that the minimum cash holdings required to maintain the normal operation of the enterprise is 30 days of cash demand.

Annual cash-pay cost = operating cost of the next year in the forecast period + tax of the next year in the forecast period + total expenses of the next year in the forecast period – total non-cash-pay cost expenses (depreciation and amortization) of the next year in the forecast period

Average balance of receivables = predicted sales revenue in the current period/average turnover rate of receivables in the forecast period

Average balance of inventory = predicted cost of sales in the current period/average inventory turnover rate in the forecast period

Average balance of payables = predicted cost of sales/average turnover rate of payables in the forecast period

(2) Calculation procedure of working capital

Before forecasting the working capital, the professional valuers should first understand, verify and analyze the occurrence of various items related to the calculation of the increase in working capital and the abnormal factors therein, and eliminate them if necessary. On this basis, items that have a significant impact on the working capital, such as accounts receivable, accounts payable and inventories, are mainly calculated based on the turnover rate of such items in the previous years and the actual situation of the enterprise.

After the above analysis, the working capital forecast is as follows:

Currency Unit: RMB

Item	**December 2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Working capital	16,993,570.80	5,376,132.42	5,388,877.88	5,405,186.14	5,409,597.69	4,302,232.16
Increase in working capital		-11,617,438.38	12,745.46	16,308.26	4,411.55	-1,107,365.52

(VI) Determination of Discount Rate

On the basis of estimating the corporate free cash flows of the appraised entity in the prediction period, we calculated the weighted average cost of capital (WACC) consistent with its caliber, and the specific calculation formula is as follows:

$$WACC = K_D \times (1 - T) \times \frac{D}{V} + K_E \times \frac{E}{V}$$

Wherein: WACC — Weighted average cost of capital;

K_D — Cost of interest-bearing debt capital;

K_E — Cost of equity capital;

D — Value of interest-bearing debt;

E — Equity value;

V = D + E;

T — Income tax rate implemented by the appraised entity.

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

1. Calculation of cost of equity capital (K_E)

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

That is, $K_E = R_F + \beta (R_M - R_F) + \alpha$

Wherein: K_E — Cost of equity capital;

R_F — Risk-free rate of return;

$R_M - R_F$ — Market risk premium;

β — Beta coefficient;

α — Enterprise-specific risk.

(1) Determination of risk-free rate of return (R_F)

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

In this valuation, the index value of risk-free rate of return released by the Company is 3.35%.

(2) Calculation of market risk premium

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

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

In this valuation, the index value of market risk premium released by the Company is 6.75%.

(3) Calculation of β

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

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

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

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

Wherein: β_L: Beta with financial leverage;

β_U: Beta without financial leverage;

T: Income tax rate of the appraised entity;

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

Securities code	Securities abbreviation	BETA with financial leverage	D	E	BETA without financial leverage
601158.SH	Chongqing Water	0.5659	523,930.41	3,076,800.00	0.4943
600874.SH	Capital Environmental Protection	0.9991	900,460.70	768,670.50	0.5006
000544.SZ	CPEP	0.8517	899,415.74	623,798.07	0.4092
Average		**0.7277**			**0.4681**

Source: iFinD.

Through the above calculation, the comprehensive β index value without financial leverage of the appraised entity is 0.4681, and taking the capital structure on the Valuation Reference Date as the capital structure of the prediction period, the β index value of the enterprise from 2022 to 2026 is finally determined to be 0.7277.

(4) Adjustment of enterprise-specific risk

Due to the different operating environment between the selected sample listed companies and the appraised entity, and taking into account the business risk of the appraised entity, the enterprise-specific risk is adjusted to 1.5%.

(5) Calculation of equity capital cost

Through the above calculation, based on

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

the equity capital cost of the appraised entity from 2022 to 2048 is calculated to be 9.76%.

2. Cost of interest-bearing debt capital

According to the quoted interest rate of the loan market (LPR for more than 5 years) authorized by the National Interbank Funding Center, the cost of interest-bearing debt capital is determined to be 4.62%.

3. Determination of WACC

Through the determination of the above indicators, based on

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

the WACC is calculated, and its specific result from 2022 to 2026 is 7.08%.

II. CALCULATION PROCESS AND RESULTS OF ASSESSED VALUE

Based on the above estimates, we estimated the business value of the appraised entity, and the specific estimated results from 2022 to 2026 are as follows:

Currency Unit: RMB0'000

Year	2022	2023	2024	2025	January to September 2026
Corporate free cash flows	2,538.22	1,323.59	1,282.46	1,269.23	1,037.42
Discount rate (WACC)			7.08%		
Present value of corporate free cash flows	2,452.83	1,194.45	1,080.77	998.87	768.98

III. VALUATION AND CALCULATION TABLE BY THE INCOME APPROACH

Currency Unit: RMB

Item		2022	2023	2024	2025	2026 January to September	Final value recovery
Operating income	(1)	23,512,844.84	23,512,844.84	23,512,844.84	23,512,844.84	17,542,499.18	
Operating costs	(2)	20,188,486.78	20,295,605.97	20,406,590.64	20,526,263.58	15,533,608.54	
Business tax and surcharges	(3)	130,856.46	199,960.14	243,534.57	243,249.28	182,637.71	
Administrative expenses	(5)	1,690,765.14	1,737,435.72	1,778,474.91	1,824,638.67	1,409,930.76	
Finance expenses	(6)	1,322,690.47	1,322,690.47	1,322,690.47	1,322,690.47	992,017.85	
Other income		0.00	287,932.01	469,492.16	468,303.44	352,178.80	
Operating profit		**180,046.00**	**245,084.56**	**231,046.41**	**64,306.28**	**-223,516.87**	
Total profit	**(10)=(8)+(9)**	**180,046.00**	**245,084.56**	**231,046.41**	**64,306.28**	**-223,516.87**	
Income tax expense	(11)	0.00	0.00	63,738.00	22,052.97	0.00	
Net profit	**(12)=(10)–(11)**	**180,046.00**	**245,084.56**	**167,308.41**	**42,253.31**	**-223,516.87**	
Net profit/gross operating income		**0.77%**	**1.04%**	**0.71%**	**0.18%**	**-1.27%**	
Net profit growth rate		**-158.36%**	**36.12%**	**-31.73%**	**-74.75%**	**-628.99%**	
Add back: depreciation and amortization	(13)	11,681,283.69	11,686,949.21	11,684,112.98	11,683,330.06	8,766,274.58	
Interest expense (net of tax impact)	(14)	989,447.99	989,447.99	989,447.99	989,447.99	742,086.00	
Difference cash flow generated by deducting input tax		936,108.72	358,979.01	0.00	0.00	0.00	
Less: capital expenditure	(15)	22,120.00	31,856.00	0.00	18,288.00	17,962.00	
Addition of working capital	(16)	-11,617,438.38	12,745.46	16,308.26	4,411.55	-1,107,365.52	
Add: asset recovery of renewable projects							18,322,596.07
Add: working capital recovery							4,302,232.16
Corporate free cash flows	(17)=(12)+(13)+(14)–(15)–(16)	25,382,204.79	13,235,859.32	12,824,561.12	12,692,331.82	10,374,247.23	22,624,828.23
Discount rate (WACC)		7.08%	7.08%	7.08%	7.08%	7.08%	7.08%
Time from the previous discount period (year)		0.5000	1.0000	1.0000	1.0000	0.8750	1.2500
Discount coefficient		0.9664	0.9024	0.8427	0.7870	0.7412	0.6805
Present value of corporate free cash flows	(17)×discount coefficient	24,528,315.48	11,944,480.92	10,807,728.09	9,988,725.41	7,689,841.97	15,395,438.42
Sum of the present value of corporate free cash flows	(18)			80,354,530.29			
Add (Less): net non-operating assets and liabilities	(21)			-15,958,017.33			
Less: interest-bearing debt	(22)			28,994,924.58			
Total equity value:	(23)=(18)+(19)–(20)+(21)–(22)			35,401,588.38			
Book value of net assets on the Valuation Reference Date	(24)			35,016,876.75			
Increase in assessed value by the income approach	(25)=(23)–(24)			384,711.63			
Value-added rate of assessed value by the income approach	(26)=(25)÷(24)×100%			1.10%			

C KAIFU XINQUAN WATER (TIANTAI) CO., LTD

I. ASSUMPTIONS FOR INCOME FORECAST

(I) General Assumptions and Limitations

1. It is assumed that there are no major changes in the country's current relevant laws and regulations, administrative policies, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located;

2. In respect of the actual utilization and operation of the appraised entity's assets as of the Valuation Reference Date, it is assumed that the appraised entity will continue to operate;

3. It is assumed that the operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there are no significant changes during the income forecast period to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the Valuation Reference Date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

4. It is assumed that the operations of the appraised entity will be in compliance with and not against the national laws and regulations during the income forecast period. Except those laws and regulations already enacted or enacted but not yet enforced by the government on the Valuation Reference Date which affect the operations of the appraised entity, it is assumed that there are no significant changes in the laws and regulations related to the operations of the appraised entity during the income period;

5. Save for the accounting standards issued but not yet implemented, it is assumed that the accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the Valuation Reference Date in material respects;

6. It is assumed that the appraised entity will continue to operate during the income forecast period on the basis of the existing management approach and management level, and that the scope and approach of operation will remain consistent with the current business strategy;

7. It is assumed that from the Valuation Reference Date, there are no significant changes to the currency exchange rate, interest rate, tax rate, political levy and inflation that will cause material effects on the business condition of the appraised entity during the income period;

8. It is assumed that from the Valuation Reference Date, there are no force majeure or unforeseeable events affecting the operations of the appraised entity.

(II) Specific Assumptions and Limitations

1. Except for the fixed assets investments for which there is definite evidence as of the Valuation Reference Date showing that the production capacity will change subsequently, it is assumed that the appraised entity will not make significant investment activities on fixed assets that will affect its operations during the income forecast period, and its production capacity will be estimated based on the status as of the Valuation Reference Date;

2. In this valuation, the impact of the external equity investments made by the appraised entity following the Valuation Reference Date on its value is not considered;

3. It is assumed that the amount of taxable income and the total profits of the appraised entity will be consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period;

4. It is assumed that during the income forecast period, the appraised entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

5. It is assumed that the main wastewater treatment equipment of the appraised entity would operate in accordance with the design requirements and that the equipment would not be put into service beyond its service life.

In accordance with the requirements of the asset valuation, the valuers have determined that these assumptions are valid as of the Valuation Reference Date, when there are more significant changes in the future economic environment, we will not assume the responsibility of deriving different valuation conclusions due to the change of assumptions.

(III) Selection of Income Model

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the Valuation Reference Date, and select the discounted corporate free cash flows model of the enterprise as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows in the next few years, summing up after its discounting by using the appropriate discount rate.

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

In the income model, the following matters need to be further explained:

1. Calculation of Corporate free cash flows

Corporate free cash flows in the forecast period = net profit after tax + depreciation and amortization + finance cost after tax – capital expenditure – changes in working capital

2. Calculation of weighted average capital cost

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the corporate free cash flows and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is:

$$\mathrm{WACC} = K_e \times [E/(E + D)] + K_d \times (1 - T) \times [D/(E + D)]$$

Wherein: E: Market value of equity;

D: Market value of debt;

K_e: Cost of equity capital;

K_d: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital (K_e) is calculated according to the CAPM model commonly used in the world. The calculation formula is:

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

Wherein: R_f: Risk-free rate of return;

MRP: Market risk premium;

β : System risk coefficient of equity;

R_c: Enterprise-specific risk adjustment coefficient.

3. *Calculation of the main business value of the appraised entity*

The main business value of the appraised entity refers to the value of the operating assets of the enterprise.

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

$$P = \sum_{i=1}^{n} \frac{F_i}{(1 + r)^i} + \frac{F_n \times (1 + g)}{(r - g) \times (1 + r)^n}$$

Wherein:

P: Value of operating assets of the enterprise as at the Valuation Reference Date;

F_i: Expected corporate free cash flows in the coming i year after the Valuation Reference Date;

F_n: Expected corporate free cash flows at the end of the forecast period;

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

n: Forecast period;

i: The coming i year of the forecast period;

g: Perpetual growth rate.

4. Scope of non-operating and surplus assets

In the model, the scope of non-operating and surplus assets includes long-term equity investment, surplus assets and non-operating assets, accordingly, the value of other assets is equal to the sum of long-term equity investment value, surplus assets value and non-operating assets value.

(1) Long-term equity investment refers to the external equity investment made by the enterprise. In general, the value of controlling long-term equity investment is determined in the following ways: the value of equity interest in investee held by the investor is measured at the estimated market value of entire shareholders' equity of long-term equity investment of the investor multiplying the shareholding percentage in the investee held by the investor; the value of non-controlling long-term equity investment is determined in the following ways: the value of non-controlling long-term equity investment that generate stable dividend income in historical years is measured by using dividend discount model, the value of non-controlling long-term equity investment that does not generate stable income in historical years is measured at the book value of the investee's net asset as at the Valuation Reference Date multiplying shareholding percentage.

(2) Surplus assets and non-operating assets

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

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

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

The valuation of long-term equity investment, surplus assets and non-operating assets is based on asset characteristics and conducted with different valuation methods.

5. Scope of non-operating and surplus liabilities

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

6. Calculation of market value of entire shareholders' equity

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

Market value of entire shareholders' equity = total value of the enterprise – value of interest-bearing debts

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

(IV) Determination of Future Income

1. Determination of the subject and basis of income in the future income forecast

The main business of Kaifu Xinquan Water (Tiantai) Co., Ltd*, includes sewage treatment. The business of the appraised entity has strong competitiveness. Considering the rationality of the income forecast, we determine that the subject of income of the appraised entity during the income period is the subject of the basis in the statement of the parent company of the appraised entity, and the basis of income amount is the corporate free cash flows in the forecast period.

2. Income forecast

Kaifu Xinquan Water (Tiantai) Co., Ltd* is mainly engaged in sewage treatment. According to the water fee report and concession agreement provided by the appraised entity for historical years, the operating income from 2018 to 2021 is as follows:

Name of products or services	Year/Item	Unit	Historical years 2018	2019	2020	January to December 2021
Operating income from sewage treatment (Phase I + Phase II + Phase III)	Designed capacity	m³/year	14,600,000.00	29,200,000.00	29,200,000.00	29,200,000.00
	Minimum water supply capacity	m³/year	14,600,000.00	21,900,000.00	25,550,000.00	27,375,000.00
	Actual treatment capacity	tonne	17,474,979.00	25,086,482.00	23,285,758.00	25,503,451.00
	Proportion of actual treatment capacity to designed capacity	%	119.69	85.91	79.75	87.34
	Unit price of water treatment	RMB/tonne	1.208	1.82	1.72	1.72
	Sales revenue	RMB	18,198,081.58	40,131,225.69	37,084,725.70	43,788,944.18
Total			18,156,884.89	40,131,225.69	39,805,750.27	43,788,944.18

The main indicators involved in the future income forecast of Kaifu Xinquan Water (Tiantai) Co., Ltd* are sewage treatment volume and unit price of sewage treatment. The determination of sewage treatment volume is mainly for the Phase III sewage treatment: according to the "Memorandum of Investment Cooperation on the Phase III of Tiantai County Sewage Treatment Plant and the Phase I & II Upgrading and Renovation Project", the third phase will put into operation on 1 January 2019. The minimum water supply capacity is 60,000 tons/day in the first year after officially operation, 70,000 tons/day in the second year, 75,000 tons/day in the third year, and 80,000 tons/day in the fourth year until the franchise term. The construction scale is 80,000 tons/day, and the future sewage treatment volume is predicted with reference to the proportion of excess treatment volume in the actual sewage treatment volume in the past years.

Through the above calculation, the income of Kaifu Xinquan Water (Tiantai) Co., Ltd* to be generated in the future income period is estimated, details of which shall be referred to the schedule.

3. Forecast of operating costs

The cost details of Kaifu Xinquan Water (Tiantai) Co., Ltd* from 2018 to December 2021 are as follows:

Unit: RMB

		Historical year			
Product or service	**Item**	**2018**	**2019**	**2020**	**January to December 2021**
Total		12,327,827.06	15,431,507.90	17,976,630.78	20,424,883.39

Wastewater treatment cost items mainly include material expenses, repair expenses, electricity expenses, sludge disposal expenses, operational service expenses, employee compensations, tool and equipment fee, gardening fee, pharmacy fee, maintenance fee, laboratory fee, intangible assets amortization, etc. The cost items of Kaifu Xinquan Water (Tiantai) Co., Ltd* in the income period are estimated as follows:

(1) Considering that the material expenses, repair expenses, electricity expenses, sludge disposal expenses for phase III are strongly correlated with the sewage treatment volume, they are calculated and determined with reference to the unit price of sewage treatment in historical years.

(2) The amortization of intangible assets for phase III are determined by reference to the amount incurred in 2021 and the current depreciation and amortization policies of the appraised entity.

(3) The wage and welfare expenses are based on the amount incurred in 2021, and are determined by reference to the enterprise's own growth rate for the forecast period, and will remain unchanged after the forecast period.

Through the above calculation, the operating cost items of Beijing Zhongshe Water Treatment Co., Ltd.* (北京中設水處理有限公司) in the income period are estimated. Please refer to the main business cost calculation table for details.

4. *Forecast of business tax and surcharges*

The enterprise is a general taxpayer of value-added tax. The applicable value-added tax rates in the forecast period are 6%, 9% and 13%. The value-added tax payable in the future years is mainly calculated based on the business income of the enterprise in the future. The input tax of value-added tax is calculated according to the inspection expenses, sludge disposal expenses, operation service expenses, intermediary agency expenses, commercial insurance expenses, electricity expenses, tools and equipment, capital expenditures, etc. in the enterprise's future annual operating expenses, and the value-added tax payable is calculated.

The property tax and land tax are calculated according to the current tax rate; the stamp tax is calculated by reference to the proportion of historical year and income to calculate the business tax and surcharges in the forecast period. Please refer to the schedule for details.

5. *Forecast of administrative expenses*

Administrative expenses mainly include office expenses, welfare expenses, employee education expenses, travel expenses, intermediary agency expenses, repair expenses, commercial insurance expenses, amortization of low-value consumables, safety production expenses, business entertainment expenses, R&D expenses, depreciation expenses, etc.

Unit: RMB

Item	**2018**	**2019**	**2020**	**January to December 2021**
Fixed part	3,957.24	4,712.39	13,213.38	10,523.76
Depreciation	3,957.24	4,712.39	13,213.38	10,523.76
Variable part	304,050.71	346,069.46	382,428.89	360,058.62
Office expenses	9,345.00	28,360.00	15,316.80	17,880.00
Travel expenses	14,136.21	4,977.61		203.96
Intermediary agency expenses	13,497.37	1,203.78	30,754.60	15,770.59
Vehicle expenses		50,500.80	91,738.80	92,599.54
Amortization of low-value consumables	3,247.01	7,360.00	6,916.28	17,353.01
Administration expenses	100,708.87	102,801.94	152,162.41	133,377.52
Business entertainment expenses	85,062.00	84,580.89	79,740.00	82,874.00
Conference expenses	9,433.96	36,094.34		
Others	68,620.29	30,190.10	5,800.00	
Wages	345,968.39	376,802.57	522,578.14	319,879.83
Consulting expenses	1,423,337.60	1,132,075.44		1,985,849.06
Traffic expenses	106,580.00	36,100.00		600.00
Total	2,183,893.94	1,895,759.86	918,220.41	2,676,911.27

(1) Office expenses, travel expenses, intermediary agency expenses, repair expenses, commercial insurance expenses, amortization of low-value consumables, business entertainment expenses are calculated according to the level of the amount incurred in the most recent two years.

(2) The assessment of welfare and employee education expenses is based on the proportion of the relevant expenses in the enterprise's historical years to the employee's salary as the multiplier, and the future employee's salary as the base.

(3) Depreciation and amortization are predicted according to the original value of fixed assets and intangible assets and the enterprise's amortization policy.

After implementing the above analysis, the specific forecast results of the administrative expenses forecast are shown in the administrative expenses forecast table.

6. Forecast of financial expenses

Historical financial expenses are as follows:

Unit: RMB

Item	**2018**	**2019**	**2020**	**2021**
Interest income	-123,168.90	-79,813.67	-82,412.33	-1,035,735.86
Interest expense	4,095,932.27	2,983,245.74	5,840,096.46	7,850,190.04
Service charge of financial institution				4,628.22
Exchange gains and losses				-995,423.67
Total	3,972,763.37	2,903,432.07	5,757,684.13	5,823,658.73

The determination of the financial expenses of Kaifu Xinquan Water (Tiantai) Co., Ltd* in the forecast period is based on the enterprise loan items and the interest rate level on the benchmark date.

Please refer to the schedule for the specific forecast results.

7. Calculation of depreciation and amortization

The non-cash expenditure items of Kaifu Xinquan Water (Tiantai) Co., Ltd* in the future income period are depreciation. Depreciation items are recognized at the amount included in cost in the current year of the predicted income period.

According to the interview with the enterprise, the appraised entity has recently built new projects, so the depreciation of new assets in the future should be considered in this valuation; Update the asset depreciation to forecast the depreciation of the existing assets. The depreciation forecast in the detailed forecast period is predicted within the depreciation life according to the depreciation policy. No depreciation will be accrued if the depreciation life is exceeded but the economic service life is not reached.

Currency Unit: RMB

Year	2022	2023	2024	2025	2026	2027
Depreciation	14,513.47	—	—	—	11,796.17	11,796.17
Amortization	7,779,485.97	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98
Total	7,793,999.44	8,226,697.98	8,226,697.98	8,226,697.98	8,238,494.15	8,238,494.15

Year	2028	2029	2030	2031	2032	2033
Depreciation	11,796.17	—	—	—	11,796.17	11,796.17
Amortization	8,226,697.983	8,226,697.983	8,226,697.983	8,226,697.983	8,226,697.983	8,226,697.983
Total	8,238,494.153	8,226,697.983	8,226,697.983	8,226,697.983	8,238,494.153	8,238,494.153

Year	2034	2035	2036	2037	2038	2039
Depreciation	11,796.17	—	—	—	11,796.17	11,796.17
Amortization	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98
Total	8,238,494.15	8,226,697.98	8,226,697.98	8,226,697.98	8,238,494.15	8,238,494.15

Year	2040	2041	2042	2043	2044	2045
Depreciation	11,796.17	—	—	—	11,796.17	11,796.17
Amortization	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98	8,226,697.98
Total	8,238,494.15	8,226,697.98	8,226,697.98	8,226,697.98	8,238,494.15	8,238,494.15

Year	2046	2047	2048
Depreciation	11,796.17	—	—
Amortization	8,226,697.98	8,226,697.98	8,226,697.98
Total	8,238,494.15	8,226,697.98	8,226,697.98

8. Forecast of capital expenditures

Capital expenditure includes two aspects: (1) capital expenditure on new assets that need new investment to increase production capacity; (2) the renewal capital expenditure when the long-term assets reach the economic service life to maintain the operation and production capacity of the enterprise.

Capital expenditure = new capital expenditure + updated capital expenditure

According to the interview with the enterprise, the newly built projects of the appraised entity need to be considered in the valuation; For the updated capital expenditure, the amount of the updated capital expenditure and the time point of the updated capital expenditure are predicted in detail according to the scale of the stock assets on the valuation reference date, the economic service life and the service life of each asset. The forecast is as follows:

Currency Unit: RMB

Year	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Electronic and other equipment	—	—	—	—	36,483.00	—
Follow-up investment for construction in progress	20,932,691.69	—	—	—	—	—
Total	**20,932,691.69**	**—**	**—**	**—**	**36,483.00**	**—**

Year	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Electronic and other equipment	—	—	—	—	36,483.00	—
Follow-up investment for construction in progress	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**36,483.00**	**—**

Year	**2034**	**2035**	**2036**	**2037**	**2038**	**2039**
Electronic and other equipment	—	—	—	—	36,483.00	—
Follow-up investment for construction in progress	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**36,483.00**	**—**

Year	**2040**	**2041**	**2042**	**2043**	**2044**	**2045**
Electronic and other equipment	—	—	—	—	36,483.00	—
Follow-up investment for construction in progress	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**36,483.00**	**—**

Year	**2046**	**2047**	**2048**
Electronic and other equipment	—	—	—
Follow-up investment for construction in progress	—	—	—
Total	**—**	**—**	**—**

9. Estimation of increase in working capital

(1) Definition and calculation method of increase in working capital

The increase in working capital refers to the cash used to obtain the business credit of others and the cash and inventory needed to maintain in normal operation with the change of business activities of the enterprise; At the same time, in economic activities, the provision of commercial credit can correspondingly reduce the immediate payment of cash. The increased amount of working capital refers to the additional amount of working capital required by an enterprise to maintain its sustainable operation capability without changing its current main business conditions.

The scope of working capital usually includes the minimum cash holdings required for normal operation, the purchase of product inventory, the funds required for advance payment of purchase payments (notes receivable, accounts receivable, prepayments) on behalf of customers, as well as notes payable, accounts payable, advances received, etc. The occurrence of the above items usually has a relatively stable proportional relationship with the operating income or operating costs. Other accounts receivable and other accounts payable need to be specifically screened and determined according to their relevance to the estimated operating business (among which the transactions that are not related to the main business or temporary are regarded as non-operating). Generally, taxes payable and payroll payable are temporarily deferred and their turnover is fast. The forecast year is determined according to the forecast data of each year.

The increase in working capital in this explanation is:

Increase in working capital = working capital requirements in the current period – working capital requirements in the previous period

Working capital requirements = minimum cash holdings + average balance of receivables + average balance of inventory – average balance of payables

Of which:

The occurrence of the minimum cash holdings in the current year is related to the expected cash-pay cost in the next year. This valuation is based on the historical data provided by the enterprise and the understanding of the operating cash holdings of the enterprise. It is estimated that the number of days of cash turnover of the enterprise is about 30 days. It is assumed that the minimum cash holdings required to maintain the normal operation of the enterprise is 30 days of cash demand.

Annual cash-pay cost = operating cost of the next year in the forecast period + tax of the next year in the forecast period + total expenses of the next year in the forecast period – total non-cash-pay cost expenses (depreciation and amortization) of the next year in the forecast period

Average balance of receivables = predicted sales revenue in the current period/average turnover rate of receivables in the forecast period

Average balance of inventory = predicted cost of sales in the current period/average inventory turnover rate in the forecast period

Average balance of payables = predicted cost of sales/average turnover rate of payables in the forecast period

(2) Calculation procedure of working capital

Before forecasting the working capital, the professional valuers should first understand, verify and analyze the occurrence of various items related to the calculation of the increase in working capital and the abnormal factors therein, and eliminate them if necessary. On this basis, items that have a significant impact on the working capital, such as accounts receivable, accounts payable and inventories, are mainly calculated based on the turnover rate of such items in the previous years and the actual situation of the enterprise.

After the above analysis, the working capital forecast is as follows:

Currency Unit: RMB

Item	December 2021	2022	2023	2024	2025	2026
Working capital	11,208,924.19	9,396,369.16	9,397,086.29	9,390,467.64	6,915,006.80	9,376,518.79
Increase in working capital		-1,812,555.03	717.13	-6,618.65	-2,475,460.83	2,461,511.98

Item	2027	2028	2029	2030	2031	2032
Working capital	9,395,372.89	9,407,281.91	9,407,726.61	6,911,362.36	9,407,726.61	9,407,213.50
Increase in working capital	18,854.10	11,909.02	444.70	-2,496,364.25	2,496,364.25	-513.11

Item	2033	2034	2035	2036	2037	2038
Working capital	9,407,281.91	9,408,308.47	6,912,388.93	9,408,753.17	9,408,753.17	9,408,240.07
Increase in working capital	68.41	1,026.57	-2,495,919.55	2,496,364.25	0.00	-513.11

Item	2039	2040	2041	2042	2043	2044
Working capital	9,408,308.47	6,911,944.23	9,408,753.17	9,408,753.17	9,550,196.82	9,549,683.71
Increase in working capital	68.41	-2,496,364.25	2,496,808.95	0.00	141,443.65	-513.11

Item	2045	2046	2047	2048
Working capital	6,927,496.17	9,194,904.66	9,195,887.68	9,195,920.65
Increase in working capital	-2,622,187.55	2,267,408.50	983.01	32.97

(V) Determination of Discount Rate

On the basis of estimating the corporate free cash flows of the appraised entity in the prediction period, we calculated the weighted average cost of capital (WACC) consistent with its caliber, and the specific calculation formula is as follows:

$$WACC = K_D \times (1 - T) \times \frac{D}{V} + K_E \times \frac{E}{V}$$

Wherein: WACC — Weighted average cost of capital;

K_D — Cost of interest-bearing debt capital;

K_E — Cost of equity capital;

D — Value of interest-bearing debt;

E — Equity value;

V = D + E;

T — Income tax rate implemented by the appraised entity.

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

1. Calculation of cost of equity capital (KE)

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

That is, $K_E = R_F + \beta (R_M - R_F) + \alpha$

Wherein: K_E — Cost of equity capital;

R_F — Risk-free rate of return;

$R_M - R_F$ — Market risk premium;

β — Beta coefficient;

α — Enterprise-specific risk.

(1) Determination of risk-free rate of return (RF)

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

In this valuation, the index value of risk-free rate of return released by the Company is 3.35%.

(2) Calculation of market risk premium

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

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

In this valuation, the index value of market risk premium released by the Company is 6.75%.

(3) Calculation of β

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

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

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

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

Wherein: β_L: Beta with financial leverage;

β_U: Beta without financial leverage;

T: Income tax rate of the appraised entity;

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

Securities code	Securities abbreviation	BETA with financial leverage	D	E	BETA without financial leverage
601158.SH	Chongqing Water	0.5659	523,930.41	3,076,800.00	0.4943
600874.SH	Capital Environmental Protection	0.9991	900,460.70	768,670.50	0.5006
000544.SZ	CPEP	0.8517	899,415.74	623,798.07	0.4092
Average		**0.7277**			**0.4681**

Source: iFinD.

Through the above calculation, the comprehensive β index value without financial leverage of the appraised entity is 0.4681, and taking the capital structure on the Valuation Reference Date as the capital structure of the prediction period, the β index value of the enterprise from 2022 to 2048 is finally determined to be 0.7277.

(4) Adjustment of enterprise-specific risk

Due to the different operating environment between the selected sample listed companies and the appraised entity, and taking into account the business risk of the appraised entity, the enterprise-specific risk is adjusted to 1.5%.

(5) Calculation of equity capital cost

Through the above calculation, based on

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

the equity capital cost of the appraised entity from 2022 to 2048 is calculated to be 9.76%.

2. Cost of interest-bearing debt capital

According to the quoted interest rate of the loan market (LPR for more than 5 years) authorized by the National Interbank Funding Center, the cost of interest-bearing debt capital is determined to be 4.62%.

3. Determination of WACC

Through the determination of the above indicators, based on

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

the WACC is calculated, and its specific result from 2022 to 2048 is 7.08%.

II. CALCULATION PROCESS AND RESULTS OF ASSESSED VALUE

Based on the above estimates, we estimated the business value of the appraised entity, and the specific estimated results from 2022 to 2048 are as follows:

Currency Unit: RMB0'000

Year	2022	2023	2024	2025	2026	2027
Corporate free cash flows	593.85	2,691.85	2,690.14	2,037.42	2,434.66	2,633.13
Discount rate (WACC)			7.08%			
Present value of corporate free cash flows	604.21	2,429.85	2,267.27	1,603.62	1,789.58	1,807.49

Year	2028	2029	2030	2031	2032	2033
Corporate free cash flows	2,602.38	2,603.24	2,028.68	2,353.64	2,599.83	2,603.57
Discount rate (WACC)			7.08%			
Present value of corporate free cash flows	1,668.27	1,558.48	1,134.21	1,228.89	1,267.67	1,185.56

Year	2034	2035	2036	2037	2038	2039
Corporate free cash flows	2,601.86	2,027.01	2,352.03	2,601.66	2,598.21	2,601.95
Discount rate (WACC)			7.08%			
Present value of corporate free cash flows	1,106.44	805.00	872.31	901.10	840.40	785.96

Year	2040	2041	2042	2043	2044	2045
Corporate free cash flows	2,027.35	2,351.98	2,601.66	2,631.33	2,642.02	2,228.04
Discount rate (WACC)			7.08%			
Present value of corporate free cash flows	571.91	619.61	640.07	604.57	566.89	446.45

Year	2046	2047	2048	Final value recovery
Corporate free cash flows	2,745.30	2,970.76	2,970.82	919.59
Discount rate (WACC)			7.08%	
Present value of corporate free cash flows	513.73	519.16	484.85	145.03

III. VALUATION AND CALCULATION TABLE BY THE INCOME APPROACH

Currency Unit: RMB

Year	2022	2023	2024	2025
Operating income	49,239,137.98	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	22,846,347.58	23,817,912.58	23,846,072.47	34,069,299.40
Business tax and surcharges	668,821.00	669,231.67	669,231.67	669,231.67
Administrative expenses	2,693,567.89	2,683,391.48	2,687,786.56	2,692,240.45
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	0.00	0.00	0.00	0.00
Operating profit	15,824,529.08	15,759,440.91	15,726,885.93	5,499,205.12
Total profit	15,824,529.08	15,759,440.91	15,726,885.93	5,499,205.12
Income tax expense	3,964,262.97	3,947,990.93	3,939,852.18	1,382,931.98
Net profit	11,860,266.11	11,811,449.98	11,787,033.75	4,116,273.14
Add back: depreciation and amortization	7,793,999.44	8,226,697.98	8,226,697.98	8,226,697.98
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax		1,476,629.77	1,476,629.77	151,320.03
Less: capital expenditure	20,932,691.69	0.00	0.00	0.00
Addition of working capital	–1,812,555.03	717.13	–6,618.65	–2,475,460.83
Corporate free cash flows	5,938,533.21	26,918,464.92	26,901,384.46	20,374,156.30
Discount rate (WACC)	7.08%			
Time from the previous discount period (year)	0.50	1.00	1.00	1.00
Discount coefficient	0.97	0.90	0.84	0.79
Present value of corporate free cash flows	5,738,851.78	24,293,368.95	22,672,725.24	16,036,159.41

Year	2026	2027	2028	2029
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	23,903,527.59	23,903,527.59	23,903,527.59	23,903,527.59
Business tax and surcharges	669,231.67	759,731.36	816,894.64	816,894.64
Administrative expenses	2,708,550.10	2,708,550.10	2,708,550.10	2,696,753.93
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	0.00	633,497.83	1,033,640.84	1,033,640.84
Operating profit	15,648,667.28	16,191,665.41	16,534,645.13	16,546,441.30
Total profit	15,648,667.28	16,191,665.41	16,534,645.13	16,546,441.30
Income tax expense	3,920,297.52	4,056,047.05	4,141,791.98	4,144,741.03
Net profit	11,728,369.76	12,135,618.36	12,392,853.15	12,401,700.28
Add back: depreciation and amortization	8,238,494.15	8,238,494.15	8,238,494.15	8,226,697.98
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax	1,473,346.30	571,632.87	0.00	0.00
Less: capital expenditure	36,483.00	0.00	0.00	0.00
Addition of working capital	2,461,511.98	18,854.10	11,909.02	444.70
Corporate free cash flows	24,346,619.54	26,331,295.60	26,023,842.60	26,032,357.88
Discount rate (WACC)		7.08%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.00
Discount coefficient	0.73	0.69	0.64	0.60
Present value of corporate free cash flows	17,895,796.72	18,074,913.80	16,682,727.93	15,584,783.99

Year	2030	2031	2032	2033
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	34,098,217.86	23,903,527.59	23,903,527.59	23,903,527.59
Business tax and surcharges	684,363.67	816,894.64	816,566.30	816,894.64
Administrative expenses	2,696,753.93	2,696,753.93	2,708,550.10	2,708,550.10
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	105,924.02	1,033,640.84	1,031,342.41	1,033,640.84
Operating profit	5,556,565.20	16,546,441.30	16,532,675.05	16,534,645.13
Total profit	5,556,565.20	16,546,441.30	16,532,675.05	16,534,645.13
Income tax expense	1,397,272.00	4,144,741.03	4,141,299.46	4,141,791.98
Net profit	4,159,293.20	12,401,700.28	12,391,375.59	12,392,853.15
Add back: depreciation and amortization	8,226,697.98	8,226,697.98	8,238,494.15	8,238,494.15
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax	0.00	0.00	0.00	0.00
Less: capital expenditure	0.00	0.00	36,483.00	0.00
Addition of working capital	-2,496,364.25	2,496,364.25	-513.11	68.41
Corporate free cash flows	20,286,759.75	23,536,438.33	25,998,304.16	26,035,683.21
Discount rate (WACC)		7.08%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.00
Discount coefficient	0.56	0.52	0.49	0.45
Present value of corporate free cash flows	11,342,051.23	12,288,851.60	12,676,729.23	11,855,580.12

Year	2034	2035	2036	2037
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	23,903,527.59	34,098,217.86	23,903,527.59	23,903,527.59
Business tax and surcharges	816,894.64	684,363.67	816,894.64	816,894.64
Administrative expenses	2,727,571.86	2,715,775.69	2,715,775.69	2,715,775.69
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	1,033,640.84	105,924.02	1,033,640.84	1,033,640.84
Operating profit	16,515,623.38	5,537,543.44	16,527,419.55	16,527,419.55
Total profit	16,515,623.38	5,537,543.44	16,527,419.55	16,527,419.55
Income tax expense	4,138,938.72	1,394,418.74	4,141,887.76	4,141,887.76
Net profit	12,376,684.66	4,143,124.71	12,385,531.78	12,385,531.78
Add back: depreciation and amortization	8,238,494.15	8,226,697.98	8,226,697.98	8,226,697.98
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax	0.00	0.00	0.00	0.00
Less: capital expenditure	0.00	0.00	0.00	0.00
Addition of working capital	1,026.57	–2,495,919.55	2,496,364.25	0.00
Corporate free cash flows	26,018,556.56	20,270,146.55	23,520,269.84	26,016,634.08
Discount rate (WACC)		7.08%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.00
Discount coefficient	0.42	0.40	0.37	0.35
Present value of corporate free cash flows	11,064,420.38	8,049,965.05	8,723,103.86	9,010,968.88

Year	2038	2039	2040	2041
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	23,903,527.59	23,903,527.59	34,098,217.86	23,903,527.59
Business tax and surcharges	816,566.30	816,894.64	684,363.67	816,894.64
Administrative expenses	2,727,571.86	2,727,571.86	2,727,571.86	2,715,775.69
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	1,031,342.41	1,033,640.84	105,924.02	1,033,640.84
Operating profit	16,513,653.30	16,515,623.38	5,525,747.27	16,527,419.55
Total profit	16,513,653.30	16,515,623.38	5,525,747.27	16,527,419.55
Income tax expense	4,138,446.20	4,138,938.72	1,391,469.69	4,141,887.76
Net profit	12,375,207.10	12,376,684.66	4,134,277.58	12,385,531.78
Add back: depreciation and amortization	8,238,494.15	8,238,494.15	8,238,494.15	8,226,697.98
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax	0.00	0.00	0.00	0.00
Less: capital expenditure	36,483.00	0.00	0.00	0.00
Addition of working capital	–513.11	68.41	–2,496,364.25	2,496,808.95
Corporate free cash flows	25,982,135.67	26,019,514.72	20,273,540.30	23,519,825.14
Discount rate (WACC)		7.08%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.00
Discount coefficient	0.32	0.30	0.28	0.26
Present value of corporate free cash flows	8,404,015.89	7,859,643.51	5,719,063.10	6,196,137.11

Year	2042	2043	2044	2045
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	50,135,849.06
Operating costs	23,903,527.59	23,319,437.65	23,319,437.65	33,504,327.92
Business tax and surcharges	816,894.64	816,894.64	816,566.30	684,503.25
Administrative expenses	2,715,775.69	2,715,775.69	2,727,571.86	2,715,775.69
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	7,205,872.42
Other income	1,033,640.84	1,033,640.84	1,031,342.41	0.00
Operating profit	16,527,419.55	17,111,509.49	17,097,743.23	6,025,369.78
Total profit	16,527,419.55	17,111,509.49	17,097,743.23	6,025,369.78
Income tax expense	4,141,887.76	4,287,910.25	4,284,468.68	10,032.88
Net profit	12,385,531.78	12,823,599.24	12,813,274.55	6,015,336.91
Add back: depreciation and amortization	8,226,697.98	8,226,697.98	8,238,494.15	8,238,494.15
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	5,404,404.32
Difference cash flow generated by deducting input tax	0.00	0.00	0.00	0.00
Less: capital expenditure	0.00	0.00	36,483.00	0.00
Addition of working capital	0.00	141,443.65	–513.11	–2,622,187.55
Corporate free cash flows	26,016,634.08	26,313,257.89	26,420,203.12	22,280,422.92
Discount rate (WACC)		7.08%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.00
Discount coefficient	0.25	0.23	0.21	0.20
Present value of corporate free cash flows	6,400,732.50	6,045,675.43	5,668,889.55	4,464,541.98

Year	2046	2047	2048	Final value recovery
Operating income	50,135,849.06	50,135,849.06	50,135,849.06	
Operating costs	23,309,637.65	23,309,637.65	23,309,637.65	
Business tax and surcharges	817,034.22	817,034.22	817,034.22	
Administrative expenses	2,715,775.69	2,715,775.69	2,715,775.69	
Finance expenses	7,205,872.42	7,205,872.42	7,205,872.42	
Other income	0.00	0.00	0.00	
Operating profit	16,087,529.07	16,087,529.07	16,087,529.07	
Total profit	16,087,529.07	16,087,529.07	16,087,529.07	
Income tax expense	10,032.88	10,032.88	10,428.49	
Net profit	16,077,496.20	16,077,496.20	16,077,100.58	
Add back: depreciation and amortization	8,238,494.15	8,226,697.98	8,226,697.98	
Interest expense (net of tax impact)	5,404,404.32	5,404,404.32	5,404,404.32	
Difference cash flow generated by deducting input tax	0.00	0.00	0.00	
Less: capital expenditure	0.00	0.00	0.00	
Addition of working capital	2,267,408.50	983.01	32.97	
Corporate free cash flows	27,452,986.17	29,707,615.48	29,708,169.92	9,195,920.65
Discount rate (WACC)		7.09%		
Time from the previous discount period (year)	1.00	1.00	1.00	1.50
Discount coefficient	0.19	0.17	0.16	0.16
Present value of corporate free cash flows	5,137,297.42	5,191,639.76	4,848,465.31	1,450,338.67
Sum of the present value of corporate free cash flows		289,377,438.39		
Add (Less): net non-operating assets and liabilities		-210,214.03		
Less: interest-bearing debt		146,894,247.50		
Total equity value		142,272,976.86		

D KAIFU XINQUAN WATER (CHANGSHU) CO., LTD

I. ASSUMPTIONS FOR INCOME FORECAST

(I) Basic Assumptions

1. Transaction assumption.

Transaction assumption assumes that the valuation subject and the assets and liabilities to be valued are already in the course of transaction and the asset valuer carries out the valuation based on a simulated market which involves the transaction conditions. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

2. Open market assumption.

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

3. Asset going-concern assumption.

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

4. Corporate going-concern assumption.

The corporate going-concern assumption assumes that businesses of the appraised entity will continuously operate and maintain the same operation method as its currently operates.

(II) General Assumptions

1. It is assumed that there are no major changes in the country's current relevant laws and regulations, administrative policies, the national macroeconomic situation, and the political, economic and social environments of the countries and regions where the parties to the transaction are located;

2. It is assumed that the operations of the appraised entity will be in compliance with and not against the national laws and regulations during the income forecast period;

3. Except those laws and regulations already enacted or enacted but not yet enforced by the government on the Valuation Reference Date which affect the operations of the appraised entity, it is assumed that there are no significant changes in the laws and regulations related to the operations of the appraised entity during the income period;

4. It is assumed that from the Valuation Reference Date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material effects on the business condition of the appraised entity during the income period (considering the changes to the interest rate between the Valuation Reference Date and the report date);

5. It is assumed that from the Valuation Reference Date, there are no force majeure or unforeseeable events affecting the operations of the appraised entity;

6. In respect of the actual utilization and operation of the appraised entity's assets as of the Valuation Reference Date, it is assumed that the appraised entity will continue to operate and its assets will continue to be used in the income forecast period;

7. Save for the accounting standards issued but not yet implemented, it is assumed that the accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the Valuation Reference Date in material respects;

8. It is assumed that the operator of the appraised entity is a responsible party and the management is capable of undertaking its duties, that there are no significant changes during the income forecast period to the key management and technical personnel of the appraised entity affecting its operations with reference to the conditions as at the Valuation Reference Date, and that the management team will be under stable development without any material change to the management system that would affect its operations;

9. It is assumed that the information provided by the principal and the appraised entity are true, complete, reliable, and there are no other defects or contingencies which may affect the valuation conclusions that have not been notified by the principal/entity under valuation as they should have been and that remain unknown to the asset valuation professionals after the performance of the requisite valuation procedures;

10. It is assumed that there will be no litigation, pledge or guarantee etc., that will cause material effect to the business performance of the appraised entity during the income forecast period.

(III) Specific Assumptions

1. Except for the fixed assets investments for which there is definite evidence as of the Valuation Reference Date showing that the production capacity will change subsequently, it is assumed that the appraised entity will not make significant investment activities on fixed assets that will affect its operations during the income forecast period, and its production capacity will be estimated based on the status as of the Valuation Reference Date;

2. In this valuation, the impact of the external equity investments made by the appraised entity following the Valuation Reference Date on its value is not considered;

3. It is assumed that the amount of taxable income and the total profits of the appraised entity will be consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period;

4. It is assumed that during the income forecast period, the appraised entity will maintain a similar turnover situation regarding accounts receivable and accounts payable as that in the historical years, and there will be no delinquent payments for goods that are significantly different from the situations in the historical years;

5. It is assumed that the enterprise performs an orderly renewal of its long-term assets, such as fixed assets, based on their normal economic life;

6. It is assumed that the appraised entity will have steady cash inflows and cash outflows during the income forecast period, without a burst of inflows to be recognized as receipt at a certain point in the year.

In accordance with the requirements of the asset valuation, the valuers have determined that these assumptions are established as of the Valuation Reference Date, and deduce the corresponding valuation conclusions based on these assumptions. If the future economic environment changes greatly or other assumptions are not established, the valuation results will change greatly.

The valuation conclusions by the income approach in this valuation report is established as at the Valuation Reference Date under the above assumptions. When the above assumptions change greatly, the signed asset valuers and this valuation agency will not assume the responsibility of deriving different valuation conclusions due to the change of assumptions.

(IV) Selection of Income Model

We use the discounted cash flow method to estimate the main business value of the appraised entity as at the Valuation Reference Date, and select the discounted corporate free cash flows model of the enterprise as the specific method. The main business value of the appraised entity is calculated on the basis of the corporate free cash flows in the next few years, summing up after its discounting by using the appropriate discount rate.

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

In the income model, the following matters need to be further explained:

(1) Calculation of corporate free cash flows

Corporate free cash flow in the forecast period = net profit after tax + depreciation and amortization + finance cost after tax – capital expenditure – changes in working capital

(2) Calculation of weighted average capital cost

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the corporate free cash flows and the weighted average cost of capital (WACC) is chosen as the discount rate. The formula is:

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

Wherein: E: Market value of equity;

D: Market value of debt;

K_e: Cost of equity capital;

K_d: Cost of debt capital;

T: Income tax rate applicable to the appraised entity.

The cost of equity capital (Ke) is calculated according to the CAPM model commonly used in the world. The calculation formula is:

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

Wherein: R_f: Risk-free rate of return;

MRP: Market risk premium;

β: System risk coefficient of equity;

R_c: Enterprise-specific risk adjustment coefficient.

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

The main business value of the appraised entity refers to the value of the operating assets of the enterprise.

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

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

Wherein: P: Value of operating assets of the enterprise as at the Valuation Reference Date;

$FCFF_i$: Expected corporate free cash flows of the enterprise in the coming i year after the Valuation Reference Date;

$FCFF_n$: Corporate free cash flows of the enterprise during the recovery period;

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

n: Income period;

i: The coming i year of the forecast period;

(4) Scope of non-operating and surplus assets

In the model, the scope of non-operating and surplus assets includes surplus assets and non-operating assets, accordingly, the value of other assets is equal to the sum of surplus assets value and non-operating assets value.

① *Surplus assets and non-operating assets*

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

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

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

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

(5) Scope of non-operating and surplus liabilities

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

(6) Calculation of market value of entire shareholders' equity

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

Market value of entire shareholders' equity = total value of the enterprise – value of interest-bearing debts

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

(V) Determination of Future Income

1. Determination of the subject and basis of income in the future income forecast

The main business of Kaifu Xinquan Water (Changshu) Co., Ltd includes sewage treatment. The business of the appraised entity has strong competitiveness. Considering the rationality of the income forecast, we determine that the subject of income of the appraised entity during the income period is the subject of the basis in the statement of the parent company of the appraised entity, and the basis of income amount is the corporate free cash flows in the forecast period.

2. Income forecast

Kaifu Xinquan Water (Changshu) Co., Ltd is mainly engaged in sewage treatment. According to the water fee report and concession agreement provided by the appraised entity for historical years, the operating income from 2018 to 2021 is as follows:

Name of products or services	Year/Item	Unit	Historical Years 2018	2019	2020	2021
Operating income from sewage treatment (Phase I + Phase II)	Designed capacity	m³/year	14,600,000.00	14,600,000.00	14,600,000.00	14,600,000.00
	Minimum water supply capacity	m³/year	9,490,000.00	9,490,000.00	9,490,000.00	9,490,000.00
	Actual treatment capacity (industrial sewage)	tonne	10,156,381.00	10,742,402.00	11,067,069.00	11,662,219.00
	Actual treatment capacity (domestic sewage)	tonne	2,395,210.00	2,794,211.00	2,890,265.00	3,202,026.00
	Proportion of actual treatment capacity to designed capacity	%	85.97	92.72	95.60	101.81
	Unit price of water treatment (industrial sewage)	RMB/ tonne	3.55	3.55	3.55	3.55
	Unit price of water treatment (domestic sewage)	RMB/ tonne	1.35	1.35	1.35	1.35
	Sales revenue	RMB	33,921,229.66	37,058,602.91	39,997,647.87	43,135,483.54
Kuncheng Pumping Station	Designed capacity	m³/year	14,600,000.00	14,600,000.00	14,600,000.00	14,600,000.00
	Minimum water supply capacity	m³/year	—	—	—	—
	Actual treatment capacity	tonne	6,720,594.00	4,481,227.00	—	—
	Proportion of actual treatment capacity to designed capacity	%	46.03	30.69	—	—
	Unit price of water treatment	RMB/ tonne	0.10	0.10	—	—
	Sales revenue		578,537.90	394,180.70	—	—
Total			34,499,767.56	37,452,783.60	39,997,647.87	43,135,483.54

The main indicators involved in forecast of future income of Kaifu Xinquan Water (Changshu) Co., Ltd are sewage treatment, unit price of sewage, etc. As of the Valuation Reference Date, the average daily sewage treatment capacity of Kaiquan Changshu in the historical years has not exceeded the designed capacity. At the end of 2020, according to the historical data from 2018 to 30 June 2021, the daily water treatment capacity of Kaifu Changshu has reached the minimum water supply capacity of 13,000 tonnes per day, and therefore the future forecasts will be made based on the historical sewage treatment capacity.

According to the approval of the relevant letter from the Management Committee of Changshu High-tech Industrial Development Zone, since 1 January 2022, the treatment price of industrial sewage and domestic sewage will increase by RMB1/tonne, that is, the adjusted unit price of industrial sewage treatment is RMB4.55/tonne and the unit price of domestic sewage treatment is RMB2.35/tonne.

Through the above calculation, the income of Kaifu Xinquan Water (Changshu) Co., Ltd to be generated in the future income period is estimated, details of which shall be referred to the schedule.

3. *Forecast of operating costs*

The operating costs of Kaifu Xinquan Water (Changshu) Co., Ltd from 2018 to December 2021 are as follows:

Product or service	Item	Unit	Historical Years 2018	2019	2020	2021
Cost	Wages	RMB	1,054,060.20	1,104,912.20	1,470,506.20	1,586,183.49
	Electricity expenses	RMB	4,092,260.13	3,242,561.08	3,108,306.57	3,635,589.45
	Direct material expenses	RMB	3,079,199.63	3,940,492.33	3,575,751.19	3,539,415.36
	Welfare expenses	RMB	99,943.14	145,547.85	123,399.13	127,809.00
	Labor union funds	RMB	16,710.45	24,197.63	25,653.61	29,592.30
	Employee education funds	RMB	1,420.00	620.00	14,200.00	2,320.00
	Pension insurance	RMB	160,861.60	154,449.87	30,003.20	216,555.56
	Medical insurance	RMB	71,965.01	76,493.92	75,941.65	102,299.27
	Unemployment insurance	RMB	4,233.81	4,500.16	937.70	6,768.06
	Work injury insurance	RMB	15,453.17	12,473.01	2,250.24	9,133.29
	Maternity insurance	RMB	6,559.98	7,199.52	9,768.41	11,691.42
	Housing provident funds	RMB	84,736.00	91,392.00	123,634.00	135,470.00
	Travel expenses	RMB	11,652.72	12,667.62	36,223.48	17,603.78
	Office expenses	RMB	16,713.20	26,086.92	21,713.97	8,309.50
	Water and electricity expenses	RMB	115,001.77	107,728.83	104,411.05	126,262.12
	Communication expenses	RMB	33,700.63	18,809.33	14,184.90	-20,608.04
	Amortization of low-value consumables	RMB	94,453.68	33,722.91	12,477.85	8,407.12
	Labor expenses	RMB	1,800.00	24,271.84	—	—
	Insurance premium	RMB	56,356.26	66,431.73	52,280.79	69,163.43
	Freight and miscellaneous charges	RMB	46,481.97	147,955.90	60,233.68	191,525.92
	Inspection and detection expenses	RMB	154,056.61	107,358.49	210,103.77	153,481.13
	Reagent expenses	RMB	9,767.89	20,749.70	19,608.27	92,089.17
	Online monitoring and maintenance expenses	RMB	183,962.28	141,320.76	82,547.17	181,603.77
	Equipment renovation	RMB	796,242.40	—	—	1,277,075.06
	Sludge disposal expenses	RMB	4,520,607.05	5,357,088.04	5,319,939.16	3,732,623.40
	Drainage expenses	RMB	142,855.00	—	—	—
	Technical service expenses	RMB	2,867.92	981.13	172,015.75	233,391.65
	Repair expenses	RMB	335,714.62	429,431.66	1,359,415.95	1,394,053.65
	Safety production expenses	RMB	367,978.32	165,844.85	314,383.12	976,515.47
	Others	RMB	4,716.98	—	200.00	—
	Lease expenses	RMB	—	71,428.57	89,270.77	73,333.33
	Greening expenses	RMB	—	25,688.07	8,910.89	—
	Handling charges	RMB	—	8,000.00	1,000.00	—
	Labor insurance premiums	RMB	—	—	11,550.49	—
	Amortisation of concession rights	RMB	5,842,775.77	5,936,242.29	6,081,682.48	11,802,384.50
Total		RMB	21,425,108.19	21,506,648.21	22,532,505.44	29,720,042.16

The cost items of production and supply of tap water mainly include wages, electricity expenses, material expenses, reagent expenses, repair expenses, drainage expenses, safety production expenses, amortisation of concession rights, etc. When calculating, the cost items needs to be distinguished. The cost items of Kaifu Xinquan Water (Changshu) Co., Ltd in the income period are estimated as follows:

(1) Considering that the material expenses, repair expenses, electricity expenses, reagent expenses, sludge disposal expenses and other expenses have relatively strong relevance with water supply, thus they are calculated by reference to the various unit costs of water supply in historical years.

(2) Online monitoring and maintenance expenses are estimated the amount which will be incurred in the future years based on the annual amount of the contract that has been signed.

(3) The depreciation of fixed assets and amortization of intangible assets are determined by reference to the amount incurred in 2021 and the current depreciation and amortization policies of the appraised entity.

(4) The wage and welfare expenses are based on the amount incurred in 2021, and are calculated by reference to the changes in the average wages of urban non-private entities in Jiangsu province over the years and occurrence of enterprises in historical years for the forecast period, and will increase at a growth rate of 7% after the forecast period.

Through the above calculation, the operating cost items of Kaifu Xinquan Water (Changshu) Co., Ltd in the income period are estimated. Please refer to the schedule for details.

4. Forecast of tax and surcharges

The enterprise is a general taxpayer of value-added tax. The applicable value-added tax rate in the forecast period is 6%. The value-added tax payable in the future years is mainly calculated based on the business income of the enterprise in the future; The input tax of value-added tax is calculated according to the insurance premium, inspection expenses, sludge disposal expenses, electricity expenses, capital expenditures, etc. in the enterprise's future annual operating expenses, and the value-added tax payable is calculated.

The property tax and land tax are calculated according to the current tax rate; the stamp tax is calculated by reference to the proportion of historical year and income to calculate the business tax and surcharges in the forecast period.

5. *Forecast of administrative expenses*

Administrative expenses mainly include administration expenses, travel expenses, intermediary service expenses, office expenses, traffic expenses, consultant fees, vehicles expenses, etc. The details for historical years are as follows:

Currency Unit: RMB

Item	2018	2019	2020	2021
Fixed part	4,833.36	8,510.69	13,626.06	11,219.51
Depreciation	4,833.36	5,839.13	8,714.56	11,219.51
Amortization of expenses	—	2,671.56	4,911.50	—
Variable part	5,173,161.36	4,308,560.52	1,409,808.39	1,613,009.02
Employee's salary	327,705.41	339,958.77	324,970.60	386,481.70
Social security	79,546.69	75,525.92	18,535.58	57,689.29
Administrative expenses	375,002.65	223,048.70	207,235.53	249,337.88
Intermediary service expenses	21,000.00	27,773.59	11,792.46	43,867.93
Office expenses	7,771.98	9,841.58	16,538.55	31,168.89
Traffic expenses	82,100.00	45,200.00	—	—
Travel expenses	7,474.68	4,592.56	2,486.68	1,698.23
Consultant fees	4,272,559.95	3,532,358.40	728,301.89	740,566.04
Vehicle expenses	—	50,261.00	99,947.10	102,199.06
Total	5,177,994.72	4,317,071.21	1,423,434.45	1,624,228.53

The valuation calculates various administrative expenses based on the historical occurrence of the appraised entity, as follows:

(1) Office expenses, travel expenses, intermediary service expenses, consultant fees and vehicles expenses are calculated according to the level of the amount incurred in the most recent year.

(2) The assessment of employee's salary and social security is based on the proportion of the relevant expenses in the enterprise's historical years to the employee's salary as the multiplier, and the future employee's salary as the base.

(3) Depreciation and amortization are predicted according to the original value of fixed assets and intangible assets and the enterprise's amortization policy.

After implementing the above analysis, the specific forecast results of the administrative expenses forecast are shown in the schedule.

6. Forecast of financial expenses

Historical annual financial expenses of the appraised entity are as follows:

Currency Unit: RMB

	Historical Years			
Item/Year	**2018**	**2019**	**2020**	**2021**
Interest income	-34,919.01	-34,151.49	-34,690.28	-4,579,285.62
Interest expense	656,573.87	657,483.86	944,679.99	1,687,284.36
Handling charges	46,634.18	43,219.19	21,040.53	25,401.48
Exchange gains and losses	728,409.13	135,409.66	—	—
Other finance costs	21,081.00	63,250.15	—	—
Total	1,417,779.17	856,211.37	931,030.24	-2,886,599.78

The determination of the financial expenses of Kaifu Xinquan Water (Changshu) Co., Ltd in the forecast period is based on the enterprise loan items and the interest rate level on the benchmark date.

Please refer to the schedule for the specific forecast results.

7. Calculation of depreciation and amortization

The non-cash expenditure items of Kaifu Xinquan Water (Changshu) Co., Ltd in the future income period are depreciation. Depreciation items are recognized at the amount included in cost in the current year of the predicted income period.

The depreciation forecast in the detailed forecast period is predicted within the depreciation life according to the depreciation policy. No depreciation will be accrued if the depreciation life is exceeded but the economic service life is not reached.

Currency Unit: RMB

Year	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Depreciation	15,126.40	15,358.33	15,358.33	15,358.33	0.00	0.00
Amortization	14,223,848.72	14,223,848.72	14,223,848.72	14,223,848.72	14,223,848.72	14,223,848.72
Total	14,238,975.11	14,239,207.05	14,239,207.05	14,239,207.05	14,223,848.72	14,223,848.72

Year	**2028**	**2029**	**2030**	**2031**	**January – April 2032**	**—**
Depreciation	15,358.33	15,358.33	15,358.33	—	—	—
Amortization	14,223,848.72	14,223,848.72	14,223,848.72	8,930,379.03	—	—
Total	14,239,207.05	14,239,207.05	14,239,207.05	8,930,379.03	—	—

8. *Forecast of capital expenditures*

Capital expenditure includes two aspects: (1) capital expenditure on new assets that need new investment to increase production capacity; (2) the renewal capital expenditure when the long-term assets reach the economic service life to maintain the operation and production capacity of the enterprise.

Capital expenditure = new capital expenditure + updated capital expenditure

According to the interview with the enterprise, there was no newly built project of the appraised entity, it is unnecessary to consider the future additional capital expenditure in the valuation; for the updated capital expenditure, the amount of the updated capital expenditure and the time point of the updated capital expenditure are predicted in detail according to the scale of the stock assets on the valuation reference date, the economic service life and the service life of each asset. The forecast is as follows:

Currency Unit: RMB

Year	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Fixed assets		47,500.00				
Electronic and other equipment	—	47,500.00	—	—	—	—
Subsequent investment in construction in progress	—	—	—	—	—	—
Upgrading existing fixed assets						
Total	—	47,500.00	—	—	—	—

Year	**2028**	**2029**	**2030**	**2031**	**January – April 2032**	
Fixed assets	47,500.00					
Electronic and other equipment	47,500.00	—	—	—	—	—
Subsequent investment in construction in progress	—	—	—	—	—	—
Upgrading existing fixed assets						
Total	47,500.00	—	—	—	—	—

9. *Calculation of income tax*

The applicable income tax rate of Kaifu Xinquan Water (Changshu) Co., Ltd is 25%, the valuation considers to perform calculation at a tax rate of 25%.

10. Estimation of increase in working capital

(1) Definition and calculation method of increase in working capital

The increase in working capital refers to the cash used to obtain the business credit of others and the cash and inventory needed to maintain in normal operation with the change of business activities of the enterprise; At the same time, in economic activities, the provision of commercial credit can correspondingly reduce the immediate payment of cash. The increased amount of working capital refers to the additional amount of working capital required by an enterprise to maintain its sustainable operation capability without changing its current main business conditions.

The scope of working capital usually includes the minimum cash holdings required for normal operation, the purchase of product inventory, the funds required for advance payment of purchase payments (notes receivable, accounts receivable, prepayments) on behalf of customers, as well as notes payable, accounts payable, advances received, etc. The occurrence of the above items usually has a relatively stable proportional relationship with the operating income or operating costs. Other accounts receivable and other accounts payable need to be specifically screened and determined according to their relevance to the estimated operating business (among which the transactions that are not related to the main business or temporary are regarded as non-operating). Generally, taxes payable and payroll payable are temporarily deferred and their turnover is fast. The forecast year is determined according to the forecast data of each year.

The increase in working capital in this explanation is:

Increase in working capital = working capital requirements in the current period – working capital requirements in the previous period

Working capital requirements = minimum cash holdings + average balance of receivables + average balance of inventory – average balance of payables

Of which:

The occurrence of the minimum cash holdings in the current year is related to the expected cash-pay cost in the next year. This valuation is based on the historical data provided by the enterprise and the understanding of the operating cash holdings of the enterprise. It is estimated that the number of days of cash turnover of the enterprise is about 30 days. It is assumed that the minimum cash holdings required to maintain the normal operation of the enterprise is 30 days of cash demand.

Annual cash-pay cost = operating cost of the next year in the forecast period + tax of the next year in the forecast period + total expenses of the next year in the forecast period – total non-cash-pay cost expenses (depreciation and amortization) of the next year in the forecast period

Average balance of receivables = predicted sales revenue in the current period/average turnover rate of receivables in the forecast period

Average balance of inventory = predicted cost of sales in the current period/average inventory turnover rate in the forecast period

Average balance of payables = predicted cost of sales/average turnover rate of payables in the forecast period

(2) Calculation procedure of working capital

Before forecasting the working capital, the professional valuers should first understand, verify and analyze the occurrence of various items related to the calculation of the increase in working capital and the abnormal factors therein, and eliminate them if necessary. On this basis, items that have a significant impact on the working capital, such as accounts receivable, accounts payable and inventories, are mainly calculated based on the turnover rate of such items in the previous years and the actual situation of the enterprise.

After the above analysis, the working capital forecast is as follows:

Currency Unit: RMB

Item	**December 2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Working capital	5,668,877.69	8,293,388.63	8,298,448.22	8,300,204.62	8,301,988.67	8,304,355.73
Increase in working capital		2,624,510.94	5,059.59	1,756.40	1,784.05	2,367.06

Item	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Working capital	8,304,355.73	8,303,808.54	8,303,897.60	8,303,897.60	8,752,207.05	3,169,226.90
Increase in working capital	0.00	-547.18	89.06	0.00	448,309.44	-5,582,980.15

(VI) Determination of Discount Rate

On the basis of estimating the corporate free cash flows of the appraised entity in the prediction period, we calculated the weighted average cost of capital (WACC) consistent with its caliber, and the specific calculation formula is as follows:

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

Wherein: WACC — Weighted average cost of capital;

K_d — Cost of interest-bearing debt capital;

K_e — Cost of equity capital;

D — Value of interest-bearing debt;

E — Equity value;

T — Income tax rate implemented by the appraised entity.

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

1. Calculation of cost of equity capital (Ke)

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

That is: $K_e = R_f + \beta \times MRP + R_c$

Wherein: K_e: Cost of equity capital;

R_f: Risk-free rate of return;

β : equity-system risk coefficient;

MRP: Market risk premium;

R_c: Enterprise-specific risk adjustment coefficient.

(1) Determination of risk-free rate of return (Rf)

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

In this valuation, the index value of risk-free rate of return calculated is 3.35%.

(2) Calculation of market risk premium

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

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

In this valuation, the index value of market risk premium calculated is 6.75%.

(3) Calculation of β

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

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

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

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

Wherein: β_L: Beta with financial leverage;

β_U: Beta without financial leverage;

T: Income tax rate of the appraised entity;

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

Securities abbreviation	BETA with financial leverage	D	E	BETA without financial leverage
Chongqing Water	0.5659	523,930.41	3,076,800.00	0.4943
Capital Environmental Protection	0.9991	900,460.70	768,670.50	0.5006
CPEP	0.8517	899,415.74	623,798.07	0.4092
Average				**0.4681**

Source: Wind information platform

Through the above calculation, the comprehensive β index value without financial leverage of the appraised entity is 0.4681.

Taking the average capital structure of comparable listed companies of 73.96% as the target capital structure D/E of the appraised entity. The income tax rate applied to the appraised entity as at the valuation reference date is 25%.

By substituting the above determined parameters into the equity-system risk coefficient formula, the equity-system risk coefficient of the appraised entity is calculated, and the β index value of the enterprise from 2022 to April 2032 is finally determined to be 0.7277.

(4) Adjustment of enterprise-specific risk

Due to the different operating environment between the selected sample listed companies and the appraised entity, and taking into account the business risk of the appraised entity, the enterprise-specific risk is adjusted to 1.5%.

(5) Calculation of equity capital cost

Through the above calculation, based on below formula:

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

the equity capital cost of the appraised entity from 2022 to 2048 is calculated to be 9.76%.

2. Cost of interest-bearing debt capital

According to the quoted interest rate of the loan market (LPR for more than 5 years) authorized by the National Interbank Funding Center, the cost of interest-bearing debt capital is determined to be 4.62%.

3. Determination of WACC

Through the determination of the above indicators, based on below formula:

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

the WACC is calculated, and its specific result from 2022 to 2042 is 7.08%.

II. CALCULATION PROCESS AND RESULTS OF ASSESSED VALUE

Based on the above estimates, we estimated the business value of the appraised entity, and the specific estimated results from 2022 to April 2032 are as follows:

Currency Unit: RMB0'000

Item	2022	2023	2024	2025	2026	2027
Corporate free cash flows	2,764.97	2,996.13	2,984.73	2,966.89	2,947.37	2,947.60
Discount rate	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%
Present value of corporate free cash flows	2,672.00	2,703.94	2,515.56	2,335.19	2,166.44	2,023.36

Item	2028	2029	2030	2031	2032
Corporate free cash flows	2,943.10	2,947.98	2,947.99	2,770.44	1,421.51
Discount rate	7.08%	7.08%	7.08%	7.08%	7.08%
Present value of corporate free cash flows	1,886.69	1,764.87	1,648.18	1,446.50	709.11

III. VALUATION AND CALCULATION TABLE BY THE INCOME APPROACH

Currency Unit: RMB0'000

Item		Year of Forecast 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	January – April 2032	Final value recovery
Operating income	(1)	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	55,954,921.51	18,651,640.50	
Operating costs	(2)	31,073,628.75	31,258,027.88	31,444,683.08	31,644,404.14	31,858,105.68	31,858,105.68	31,858,105.68	31,858,105.68	31,858,105.68	26,564,635.99	5,888,206.01	
Business taxes and surcharges	(3)	3,818,969.23	3,835,869.54	3,836,297.04	3,836,297.04	3,836,297.04	3,836,297.04	3,835,869.54	3,836,297.04	3,836,297.04	3,836,297.04	1,278,704.96	
Selling expenses	(4)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Administrative expenses	(5)	1,607,959.48	1,641,459.82	1,677,057.02	1,715,146.01	1,740,542.91	1,740,542.91	1,755,901.24	1,755,901.24	1,755,901.24	1,740,542.91	580,180.97	
Finance expenses	(6)	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	973,221.01	324,407.00	
Assets impairment loss	(7)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Other income		1,718,199.04	1,836,501.19	1,839,493.69	1,839,493.69	1,839,493.69	1,839,493.69	1,836,501.19	1,839,493.69	1,839,493.69	1,839,493.69	612,739.51	
Operating profit		**20,199,342.08**	**20,082,844.46**	**19,863,157.07**	**19,625,347.00**	**19,386,248.57**	**19,386,248.57**	**19,368,325.23**	**19,370,890.23**	**19,370,890.23**	**24,679,718.26**	**11,192,881.08**	
Net non-operating income	(9)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total profit	**(10)=(8)+(9)**	**20,199,342.08**	**20,082,844.46**	**19,863,157.07**	**19,625,347.00**	**19,386,248.57**	**19,386,248.57**	**19,368,325.23**	**19,370,890.23**	**19,370,890.23**	**24,679,718.26**	**11,192,881.08**	
Income tax expense	(11)	5,049,835.52	5,020,711.12	4,965,789.27	4,906,336.75	4,846,562.14	4,846,562.14	4,842,081.31	4,842,722.56	4,842,722.56	6,169,929.57	2,798,220.27	
Net profit	**(12)=(10)–(11)**	**15,149,506.56**	**15,062,133.35**	**14,897,367.80**	**14,719,010.25**	**14,539,686.43**	**14,539,686.43**	**14,526,243.93**	**14,528,167.68**	**14,528,167.68**	**18,509,788.70**	**8,394,660.81**	
Net profit/gross operating income		**27.07%**	**26.92%**	**26.62%**	**26.31%**	**25.98%**	**25.98%**	**25.96%**	**25.96%**	**25.96%**	**33.08%**	**45.01%**	
Net profit growth rate		**52.58%**	**-0.58%**	**-1.09%**	**-1.20%**	**-1.22%**	**0.00%**	**-0.09%**	**0.01%**	**0.00%**	**27.41%**	**-54.65%**	
Add back: depreciation and amortization	(13)	14,238,975.11	14,239,207.05	14,239,207.05	14,239,207.05	14,223,848.72	14,223,848.72	14,239,207.05	14,239,207.05	14,239,207.05	8,930,379.03	0.00	
Interest expense (net of tax impact)	(14)	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	712,500.00	237,500.00	
Difference cash flow generated by deducting input tax		173,278.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Less: capital expenditure	(15)	0.00	47,500.00	0.00	0.00	0.00	0.00	47,500.00	0.00	0.00	0.00	0.00	
Addition of working capital	(16)	2,624,510.94	5,059.59	1,756.40	1,784.05	2,367.06	0.00	-547.18	89.06	0.00	448,309.44	-5,582,980.15	
Add: working capital recovery													3,169,226.90
Corporate free cash flows		**27,649,748.82**	**29,961,280.81**	**29,847,318.45**	**29,668,933.25**	**29,473,668.08**	**29,476,035.14**	**29,430,998.16**	**29,479,785.66**	**29,479,874.73**	**27,704,358.28**	**14,215,140.96**	**3,169,226.90**
Discount rate (WACC)		7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%	7.08%
Time since the last discount period (years)		0.5000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	0.6667	0.1667
Discount coefficient		0.9664	0.9025	0.8428	0.7871	0.7350	0.6864	0.6411	0.5987	0.5591	0.5221	0.4988	0.4932
Present value of corporate free cash flows	(17)×discount coefficient	26,720,034.16	27,039,448.62	25,155,584.51	23,351,923.69	21,664,394.59	20,233,595.89	18,866,903.81	17,648,654.56	16,481,796.68	14,465,007.10	7,091,141.50	1,563,028.58
Sum of the present value of corporate free cash flows	(18)				220,281,513.68								
Add (Less): net non-operating assets and liabilities	**(21)**				29,240,708.05								
Less: interest-bearing debt	**(22)**				20,000,000.00								
Total equity value :	**(23)=(18)+(19)–(20)+(21)–(22)**				**229,522,221.73**								
Book value of net assets on the Valuation Reference Date	**(24)**				152,161,196.73								
Increase in assessed value by the income approach	**(25)=(23)–(24)**				77,361,025.00								
Value-added rate of assessed value by the income approach	**(26)=(25)÷(24)×100%**				50.84								

REPORT ON DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTERESTS IN THE PROJECT COMPANIES (AS DEFINED BELOW)

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

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Vocation (Beijing) International Assets Appraisal Co., Ltd. dated 15 August 2022 in respect of the equity interests in Kaifu Xinquan Water (Changshu) Co., Ltd., Kaifu Xinquan Water (Dafeng) Co., Ltd., Kaifu Xinquan Water (Taizhou) Co., Ltd. and Kaifu Xinquan Water (Tiantai) Co., Ltd (collectively referred to as the "**Project Companies**") which have been accounted for as the long-term equity investment of Yunshui Technology Co., Ltd. ("**Target Company**"), as at 31 December 2021 (the "**Valuation**") is based. The Valuation, prepared in connection with the Project Companies is set out in the announcement dated 3 November 2022 (the "**Announcement**"). The Valuation which is based on the discounted future estimated cash flows is regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

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

Reporting Accountant's Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with the terms of our engagement letter dated 28 October 2022 and Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Company. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

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

Opinion

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

Yours faithfully,

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 3 November 2022

Re: Announcement —
Very Substantial Disposal in relation to the Disposal of
100% Interest in the Target Company

We, Yunnan Water Investment Co., Limited (the "**Company**") (stock code: 6839), refer to the announcement of the Company dated 3 November 2022 (the "**Announcement**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation conducted by Vocation (Beijing) International Assets Appraisal Co., Ltd., an independent valuer. The Valuation adopts an asset-based approach and income approach, among which the income approach (which is based on the discounted cash flow forecast) is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible.

Pursuant to Rule 14.62 of the Listing Rules, we have also engaged Moore Stephens CPA Limited, acting as the Company's reporting accountants, to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (which does not involve the adoption of accounting policies), and considered the report from Moore Stephens CPA Limited which was prepared in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, as set out in Appendix I to the Announcement.

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

Yours faithfully,

On behalf of the Board
Yunnan Water Investment Co., Limited
Yu Long
Acting Chairman

1. RESPONSIBILITY STATEMENT

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

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

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

Name of Director, Supervisor and chief executive	Capacity	Type of Shares	Number of Shares held	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Mr. Yu Long	Beneficial owner	Domestic Shares	10,820,000 (L)	1.30	0.91
Mr. Yu Long	Beneficial owner	H Shares	770,000 (L)	0.21	0.06
Mr. Yang Fang	Beneficial owner	Domestic Shares	1,755,000 (L)	0.21	0.15
Mr. Huang Yi	Beneficial owner	Domestic Shares	1,560,000 (L)	0.19	0.13
Mr. Zhou Zhimi	Beneficial owner	Domestic Shares	325,000 (L)	0.04	0.03

(L) refers to long position

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

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

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Green Environmental Protection[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd.[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership)[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd.[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)[2]	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Caiyun International[1]	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH[1]	Interests in controlled corporation, interests held jointly with another person	H Shares	8,449,000 (L)	2.32	0.71

Notes:

(L) refers to long position

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

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

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

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

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

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

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

4. DIRECTORS' SERVICE CONTRACTS

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

5. COMPETING INTERESTS

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

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

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up, and there is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

7. LITIGATION

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

8. MATERIAL CONTRACTS

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

(a) the equity acquisition and share issuance agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company in respect of the acquisition of equity interests from Haining Water Investment Group and the Company by Qianjiang Biochemical at the consideration of RMB2,103.2 million to be settled through the issuance of shares by Qianjiang Biochemical (the "**Equity Acquisition and Share Issuance Agreement**");

(b) the profit guarantee agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company to specify the arrangements in relation to the undertaking by Haining Water Investment Group and the Company as stipulated under the Equity Acquisition and Share Issuance Agreement to indemnify Qianjiang Biochemical in the event that Zhejiang Haiyun Environmental Protection fails to achieve any of the minimum net profit requirements as specified therein;

(c) the equity transaction agreement and its supplemental agreement dated 1 July 2021 entered into between the Company and Yueyang Construction and Investment Group Co., Ltd.* (岳陽市城市建設投資集團有限公司) in respect of the disposal of 51% equity interest held by the Company in Yueyang the Target Company Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司) at the consideration of RMB77,630,000;

(d) the finance lease agreement dated 29 October 2021 (the "**Finance Lease Agreement**") between Wuxi Zhongfa Water Investment Co., Ltd.* (無錫中發水務投資有限公司), Hyflux NewSpring (Guanyun) Co., Ltd.*(凱發新泉自來水(灌雲)有限公司), Hyflux NewSpring (Tiantai) Co., Ltd.*(凱發新泉水務(天台)有限公司), Hyflux NewSpring (Changshu) Co., Ltd.*(凱發新泉水務(常熟)有限公司) (together the "**Lessees**", being the Company's wholly-owned subsidiaries) and Shanghai Guojin Financial Leasing Co., Ltd. ("**Shanghai Guojin Leasing**"), pursuant to which Shanghai Guojin Leasing agreed to, among others, (i) acquire the all the facilities owned by the Lessees (the "**Leased Assets**") at a consideration of RMB250,000,000, and (ii) lease back the Leased Assets to the Lessees with the lease term of six months;

(e) the supplementary agreement dated 29 April 2022 between the Lessees and Shanghai Guojin Leasing, pursuant to which, among others, the lease term of the Leased Assets changed from "six months from the lease inception date" to "ten months from the lease inception date";

(f) the Equity Transaction Agreement;

(g) the equity transaction agreement dated 20 December 2022 entered into between Hyflux Utility WWT (MG) Limited (凱發新泉公用事業污水(明光)有限公司) ("**Hyflux Utility**", being the Company's wholly-owned subsidiary) and CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司) ("**CGN Environmental Protection**"), pursuant to which, Hyflux Utility agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (凱發污水處理(明光)有限公司) at the consideration of RMB96,523,000; and

(h) the equity transaction agreement dated 28 December 2022 entered into between the Company and CGN Environmental Protection, pursuant to which, the Company agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Lu'an Yeji Yunshui Water Investment Co., Ltd.* (六安市葉集區雲水水務投資有限公司), at the consideration of RMB87,295,900.

9. EXPERTS AND CONSENTS

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

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

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

(a) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up); and

(c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and its letter in the form and context in which they respectively appear.

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

10. MISCELLANEOUS

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

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

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

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

11. DOCUMENTS ON DISPLAY

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

(a) the Equity Transaction Agreement;

(b) the unaudited financial information of the Target Company for the three years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2022, the text of which is set out in Appendix II to this circular;

(c) the report from Moore Stephens CPA Limited in relation to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;

(d) the letters on profit forecast issued by Moore Stephens CPA Limited and the Board, the texts of which are set out in Appendices VII and VIII to this circular;

(e) the Valuation Report, the text of which is set out in Appendix V to this circular;

(f) the valuation reports of the Project Companies, extracts of which are set out in Appendix VI to this circular;

(g) the written consent referred to in the paragraph headed "Experts and Consents" in this appendix;

(h) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(i) this circular.

YUNNAN WATER

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

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

(Stock code: 6839)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司) (the "**Company**") will be held at 10:00 a.m. on Friday, 31 March 2023 at Conference Room 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC to consider and, if thought fit, approve the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (i) the Equity Transaction Agreement (as defined in the circular of the Company dated 24 February 2023) and the transaction contemplated thereunder be and is hereby ratified, confirmed and approved; and

   (ii) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated therein and the completion of the Equity Transaction Agreement (as defined in the circular of the Company dated 24 February 2023) and the transaction contemplated thereunder."

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

Kunming, the PRC
24 February 2023

As at the date of this notice, the executive directors are Mr. Yu Long and Mr. Zhou Zhimi, the non-executive directors are Mr. Mei Wei, Mr. Dai Richeng, Mr. Chen Yong and Mr. Liu Hui, and the independent non-executive directors are Mr. Liu Shuen Kong, Mr. Zhou Beihai and Mr. Zhong Wei.

Notes:

(1) Pursuant to the Listing Rules, voting on all resolutions at a general meeting shall be by way of poll. The poll results of the EGM will be published on the websites of the Stock Exchanges and the Company in accordance with the requirements of the Listing Rules.

(2) For the purpose of ascertaining eligibility to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 March 2023 to Friday, 31 March 2023 (both dates inclusive) during which registration for transfer of shares will be suspended. Holders of H Shares who intend to attend and vote at the EGM shall deliver all transfer forms together with the relevant share certificates to the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at or before 4:30 p.m. on Thursday, 23 March 2023.

(3) Any Shareholder who is entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his/her behalf. A proxy needs not be a Shareholder. If the Shareholder appoints more than one proxy, his/her proxies may only vote by poll.

(4) The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing. If the Shareholder is a legal entity, then the relevant appointing document must be either under seal or under the hand of its director or attorney duly authorized. If the instrument appointing a proxy is signed by a person duly authorized by the Shareholder, the powers of attorney or other instruments of authorization shall be notarized.

(5) The proxy form together with the power of attorney or other authorization documents, if any, must be delivered to the secretariat of the Board located at the principal place of business of the Company in the PRC (for holders of Domestic Shares) or the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited (for holders of H Shares) not later than 24 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be) in order to be effective.

(6) The H Share registrar of the Company in Hong Kong is Tricor Investor Services Limited and its address and contact information are as follows:

17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
Tel: (+852) 2980 1333
Fax: (+852) 2810 8185

(7) The address and contact information of the principal place of business of the Company in the PRC are as follows:

Principal place of business in the PRC:
Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC

Contact information:
Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC
Contact person: Ms. Guo Jia
Tel: (+86) 871 6720 9927
Fax: (+86) 871 6720 3907

(8) Pursuant to the Articles of Association, for joint registered Shareholders consisting of two or more persons, only the Shareholder whose name appear first on the register of members of the Company is entitled to receive this notice, attend the EGM and exercise the entire voting rights conferred by the relevant Shares, and this notice shall be deemed to have served all such joint registered Shareholders.

(9) The EGM is expected to last for no more than half a day. Shareholders who attend the EGM in person or their proxies shall be responsible for their own travelling and accommodation expenses. Shareholders or their proxies who attend the EGM must produce their identity documents for identification.

* *For identification purposes only*