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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

DISCLOSEABLE TRANSACTION DISPOSAL OF 100% EQUITY INTEREST IN A SUBSIDIARY

THE DISPOSAL

On 29 June 2022 (after trading hours), the Company, the People's Government of Suncun Town and Fanchang Dianchi Water entered into the Equity Transfer Agreement, pursuant to which the Company conditionally agreed to sell and the People's Government of Suncun Town conditionally agreed to acquire 100% equity interest in Fanchang Dianchi Water for a Consideration comprising the equity transfer price, the principal and interest of the borrowings provided by the Company to Fanchang Dianchi Water (including the project construction borrowings and the daily operation borrowings for the Transitional Period) and the subsequent operating costs for the Transitional Period determined based on the audit for the Transitional Period, of which the relevant consideration for the Transitional Period shall be subject to audit for the Transitional Period. The Board estimates that the Consideration will not exceed RMB163 million based on the historical data of Fanchang Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual operating costs for the Transitional Period are different from the Board's estimate, resulting in the Consideration exceeding RMB163 million, the Company will make a separate announcement in due course.

Upon Completion, Fanchang Dianchi Water will cease to be a subsidiary of the Company, the Group will cease to have any equity interest in Fanchang Dianchi Water and its financial results will cease to be consolidated in the accounts of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 5% but all are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

On 29 June 2022 (after trading hours), the Company, the People’s Government of Suncun Town and Fanchang Dianchi Water entered into the Equity Transfer Agreement, pursuant to which the Company conditionally agreed to sell and the People’s Government of Suncun Town conditionally agreed to acquire 100% equity interest in Fanchang Dianchi Water for a Consideration comprising the equity transfer price, the principal and interest of the borrowings provided by the Company to Fanchang Dianchi Water (including the project construction borrowings and the daily operation borrowings for the Transitional Period) and the subsequent operating costs for the Transitional Period determined based on the audit for the Transitional Period, of which the relevant consideration for the Transitional Period shall be subject to audit for the Transitional Period. The Board estimates that the Consideration will not exceed RMB163 million based on the historical financial data of Fanchang Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual operating costs for the Transitional Period are different from the Board’s estimate, resulting in the Consideration exceeding RMB163 million, the Company will make a separate announcement in due course.

Upon Completion, Fanchang Dianchi Water will cease to be a subsidiary of the Company, the Group will cease to have any equity interest in Fanchang Dianchi Water and its financial results will cease to be consolidated in the accounts of the Group.

DETAILS OF THE EQUITY TRANSFER AGREEMENT

Salient terms of the Equity Transfer Agreement are summarised below:

Date	29 June 2022 (after trading hours)
Parties	(i) the Company (as the Seller); (ii) the People’s Government of Suncun Town (as the Purchaser); and (iii) Fanchang Dianchi Water (as the Target Company).
Subject of the Disposal	The Company conditionally agreed to sell and the People’s Government of Suncun Town conditionally agreed to acquire 100% equity interest in Fanchang Dianchi Water. As at the date of this announcement, Fanchang Dianchi Water is a wholly-owned subsidiary of the Company. For details of Fanchang Dianchi Water, please refer to the section headed “Information on the Target Company” in this announcement

Consideration

Consideration includes the equity transfer price, the principal and interest of the borrowings provided by the Company to Fanchang Dianchi Water (including the project construction borrowings and the daily operation borrowings for the Transitional Period) and the subsequent operating costs for the Transitional Period determined based on the audit for the Transitional Period, of which the relevant consideration for the Transitional Period shall be subject to audit of the Transitional Period. In particular:

- (i) The equity transfer price is RMB65.95 million, including dividends payable by Fanchang Dianchi Water to the Company in the amount of RMB12 million in respect of the cash dividends distributed to the Company on the Base Date of 30 June 2021, which shall be paid by the People's Government of Suncun Town to Fanchang Dianchi Water, and in turn paid by Fanchang Dianchi Water to the Company.
- (ii) The principal and interest of the borrowings provided by the Company to Fanchang Dianchi Water (including the project construction borrowings and the daily operation borrowings for the Transitional Period). As of 31 May 2022, the total principal and interest of the project construction borrowings provided by the Company to Fanchang Dianchi Water amounted to approximately RMB88,430,100, of which the principal amount of the project construction borrowings was RMB80,875,400 and the corresponding interest accrued as of 31 May 2022 was approximately RMB7,554,700, and the final cut-off date of the interest accrual period for the project construction borrowings is the date on which the Company received the entire principal amount of the project construction borrowings;

As of May 31, 2022, no daily operation borrowings have been incurred for the Transitional Period. The final principal amount of the daily operation borrowings for the Transitional Period shall be based on the actual amount incurred, and the cut-off date of the interest accrual period is the date on which the Company received the entire principal amount of the daily operation borrowings for the Transitional Period.

The principal and interests of the project construction borrowings and the daily operation borrowings for the Transitional Period shall be paid by the People's Government of Suncun Town to Fanchang Dianchi Water and then by Fanchang Dianchi Water to the Company.

- (iii) Operating costs for the Transitional Period are the actual operating costs incurred for project operations during the Transitional Period, including operating costs, period expenses and tax expenses incurred to maintain normal operations. The final amount shall be determined by subsequent audit for the Transitional Period.

The Board estimates that the Consideration will not exceed RMB163 million based on the historical data of Fanchang Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual operating costs for the Transitional Period are different from the Board's estimate, resulting in the Consideration exceeding RMB163 million, the Company will make a separate announcement in due course.

Payment of Consideration

The Consideration shall be paid in three installments as follows:

- (i) The first installment of RMB103.95 million shall be paid by the People's Government of Suncun Town within 5 working days from the effective date of the Equity Transfer Agreement, including the equity transfer price of RMB65.95 million and the principal of the project construction borrowings of RMB38 million;
- (ii) The second installment includes the operating costs for the Transitional Period and the principal and interests of the daily operation borrowings for the Transitional Period, which shall be paid by the People's Government of Suncun Town based on the audit results of the audit report for the Transitional Period within 7 working days after the issuance of audit report for the Transitional Period; and
- (iii) The third installment includes the principal amount of the remaining project construction borrowings of RMB42,875,400 and all interest accrued on the project construction borrowings, which shall be paid by the People's Government of Suncun Town within 5 working days upon completion of legal procedures for the existing projects under construction (which is expected to be completed by 30 September 2022) and the submission of written documents by the Company to the People's Government of Suncun Town.

Conditions precedent for Completion	The Equity Transfer Agreement shall become effective upon the fulfillment of all conditions precedent, which include (i) the People’s Government of Suncun Town having obtained the approval of the higher authorities in respect of the transaction; (ii) the Company having obtained the approval of the higher authorities in respect of the transaction and completed the corresponding approval procedures, etc.
Transfer	<p>Within 5 working days upon receipt of the first installment of Consideration by the Company, the operation of the wastewater treatment plant under Fanchang Dianchi Water shall be taken over by the operation team deployed by the People’s Government of Suncun Town. Thereafter, the Company and the management staff deployed by the Company shall cease to be responsible for the operation and management of Fanchang Dianchi Water and the Company shall cease to provide support to Fanchang Dianchi Water in respect of all payments including working capital. At the same time, financial information and seals shall be handed over to the People’s Government of Suncun Town pursuant to the terms of the Equity Transfer Agreement.</p> <p>Within 5 working days upon receipt of all Consideration by the Company, the People’s Government of Suncun Town and Fanchang Dianchi Water shall cooperate with the Company to complete the registration of change of shareholding and other relevant procedures.</p>
Completion	Completion of the Disposal will take place on the date of completion of the registration of change of shareholding. Upon Completion of the Disposal, the Group will cease to hold any equity interest in Fanchang Dianchi Water and Fanchang Dianchi Water will cease to be accounted for as a subsidiary of the Group.

INFORMATION ON THE PARTIES INVOLVED

Information on the Group

The Company is a joint stock company incorporated in the People’s Republic of China with limited liability, and is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC’s strategic goal to treat pollutants at Dianchi Lake.

Information on the Purchaser

The People’s Government of Suncun Town is a governmental authority in the PRC. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the Purchaser and its ultimate beneficial owners are independent third parties.

Information on the Target Company

Fanchang Dianchi Water, the Target Company, is a company incorporated in the People's Republic of China with limited liability and is principally engaged in the wastewater treatment business. As at the date of this announcement, it is wholly-owned by the Company. The summarised financial information of Fanchang Dianchi Water for the two years ended 31 December 2020 and 2021 is set out below:

	For the year ended 31 December	
	2020	2021
	<i>RMB'0000</i>	<i>RMB'0000</i>
	(Audited)	(Audited)
Net profit/(loss) before taxation	372.16	132.59
Net profit/(loss) after taxation	320.87	121.53

The audited net asset value of the Target Company as at the Base Date (30 June 2021) was approximately RMB52,251,600 and the audited net asset value as at 31 December 2021 was approximately RMB52,878,400.

DETERMINATION OF CONSIDERATION FOR DISPOSAL

The Consideration is determined on normal commercial terms after arm's length negotiations between the Seller and the Purchaser with reference to (i) the appraised value of the entire shareholders' equity of Fanchang Dianchi Water by a valuer; (ii) the principal and interest of the amount owed by Fanchang Dianchi Water to the Company; (iii) the final amount of the consideration for the Transitional Period which is subject to subsequent audit for the Transitional Period based on an estimate of the interest on project construction borrowings for the Transitional Period, actual operating costs (including operating costs, period expenses, tax expenses, etc. incurred to maintain normal operations during the Transitional Period), daily operation borrowings for the Transitional Period and interest thereon; (iv) the consideration for acquisition of equity interests in Fanchang Dianchi Water by the Company.

In particular, according to the asset valuation report issued by ZhongHe Appraisal, the valuer adopted the income based approach to value the entire shareholders' equity of Fanchang Dianchi Water, and the final valuation conclusion was that the appraised value of the entire shareholders' equity of Fanchang Dianchi Water was RMB65,950,000.

As the valuation of the entire shareholders' equity of Fanchang Dianchi Water is conducted under the income based approach, which involves the calculations of discounted future estimated cash flows, it constitutes a profit forecast under Rule 14.61 of the Listing Rules.

In accordance with Rule 14.60A and Rule 14.62 of the Listing Rules, the valuation assumptions are set out below:

1. Basic Assumptions

(a) *Open market assumption*

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

(b) *Transaction assumption*

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation of valuer is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

(c) *Going concern assumption*

Going concern assumption assumes that Fanchang Dianchi Water operates as a going concern and in the current manner.

2. General Assumptions

- (a) Going concern assumption: It is assumed that Fanchang Dianchi Water will maintain normal operation in the future with the ability to operate as a going concern.
- (b) There will be no material changes in the state and local laws, regulations, rules and social political and economic policies currently in force and applicable to Fanchang Dianchi Water.
- (c) There will be no material changes in PRC's existing tax basis and rates, bank lending rates and other policy-based charges.
- (d) There will be no other material adverse impact caused by force majeure or unforeseeable circumstances.

3. Specific Assumptions

- (a) It is assumed that the professional and technical personnel and senior management of Fanchang Dianchi Water would remain relatively stable and there would be no significant outflow of core professional personnel in the following years.
- (b) It is assumed that the present and future management of Fanchang Dianchi Water are responsible and its management would be able to steadily proceed with the development plan of the company to maintain a good operating position.

- (c) It is assumed that the future management of Fanchang Dianchi Water would comply with relevant PRC laws and regulations, and there would be no major non-compliance that might affect the development and earnings of the company.
- (d) It is assumed that the accounting policies adopted in the historical financial information provided by Fanchang Dianchi Water and the accounting policies and accounting methods used in making revenue forecasts are substantially the same in all material respects.
- (e) It is assumed that there will be no major safety accidents or unforeseen events during the production and operation of Fanchang Dianchi Water in the future.
- (f) It is assumed that Fanchang Dianchi Water can properly perform in accordance with the existing concession agreement and its supplemental agreement until the end of the term of the agreement.
- (g) It is assumed that the official commencement of commercial operation and collection of wastewater treatment fees will take place in 2023 after the completion of trial run of the project under construction of Fanchang Dianchi Water.

4. Major Commercial Assumptions

- (a) Based on the term of concession right of Fanchang Dianchi Water (with expiry date of 20 October 2045), the forecast period of the valuation has been assumed to be from 1 July 2021 to 20 October 2045.
- (b) It is assumed that during the forecast period, Fanchang Dianchi Water will be principally engaged in the wastewater treatment business in Fanchang County, Wuhu, Anhui Province and will only provide the corresponding services under the existing Concession Agreement for Urban Wastewater Treatment Projects (《城市污水處理項目特許經營協議》) and its supplemental agreements (individually or collectively, the “**Concession Agreements**”).
- (c) Assumptions related to revenue: According to the Concession Agreements, as the project under construction is expected to commence commercial operation from 2023, the guaranteed water volume from July 2021 to December 2022 is 15,000 cubic metres per day and the wastewater treatment service rate is set at RMB1.2 per cubic metre; starting from 2023, the guaranteed water volume is 30,000 cubic metres per day and the wastewater treatment service rate is set at RMB2.71 per cubic metre based on the Concession Agreements and the total investment in the project; for value-added tax refund, in accordance with the relevant requirements of the Notice on the Issuance of the Catalogue of Value-added Tax Preferences for Products and Services for Comprehensive Utilization of Resources (Cai Shui [2015] No. 78) (《關於印發〈資源綜合利用產品和勞務增值稅優惠目錄〉的通知》(財稅[2015]78號)) of the Ministry of Finance and the State Taxation Administration, Fanchang Dianchi Water enjoys the preferential policy of immediate refund of value-added tax at a rate of 70%.

- (d) Assumptions related to operating costs: Operating costs mainly include chemical costs, power costs, labour costs and manufacturing costs, etc. The average unit operating costs for the forecast period are approximately RMB1.19 per tonne from July 2021 to 2022 and RMB1.35 per tonne from 2023 to October 2045, without taking into account increases in unit variable cost due to reasons such as inflation.
- (e) Assumptions related to period expenses and tax: The period expenses are mainly administrative expenses, which mainly include staff salaries, social insurance, leasing fees, etc. Based on the historical information of Fanchang Dianchi Water, the Concession Agreements and the actual situation of the existing projects under construction during the trial operation period, the annual average administrative expenses for the forecast period are estimated to be approximately RMB270,400 per annum, which will remain basically unchanged during the forecast period; no selling expenses are expected to be incurred during the forecast period; during the forecast period, Fanchang Dianchi Water will not require external financing and no finance costs will be incurred; the tax obligations and tax incentives available to Fanchang Dianchi Water will remain unchanged during the forecast period.
- (f) Enterprise income tax: Fanchang Dianchi Water enjoys a preferential income tax policy of 3-year exemption and 3-year half payment, and will pay the income tax at a rate of 12.5% from July to December 2021 and 25% from 2022 to October 2045 during the forecast period.
- (g) Depreciation and amortisation and capital expenditure: The depreciation period of fixed assets and the amortisation period of intangible assets are determined with reference to the accounting policy on depreciation of fixed assets and the amortisation policy on intangible assets of Fanchang Dianchi Water, taking into account the economic useful life of fixed assets. The expected useful life of fixed assets varies from 5 to 30 years depending on the category. Capital expenditure mainly considers the renewal of fixed assets, machinery and equipment, electronic equipment, vehicles, capital expenditure on existing projects under construction after the Base Date, etc.
- (h) The assumed annual discount rate of cash flows (post-tax) has been set at 6.87% (at an income tax rate of 25%), which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company.

The Directors confirm that the forecasts of discounted future estimated cash flows in the valuation report prepared by ZhongHe Appraisal, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, were made after due and careful enquiry. A confirmation letter in respect of the valuation further issued by the Board is set out in Appendix I to this announcement.

Baker Tilly Hong Kong Limited (“**Baker Tilly Hong Kong**”) has been engaged by the Company to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the valuation report prepared by the independent valuer was based. A confirmation letter issued by Baker Tilly Hong Kong is set out in Appendix II to this announcement.

The qualifications of the valuer and Baker Tilly Hong Kong are as follows:

EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions and advice contained in this announcement:

Name	Qualification
Baker Tilly Hong Kong	Certified Public Accountants, Hong Kong
ZhongHe Appraisal	Independent professional valuer

Each of the independent valuer and Baker Tilly Hong Kong has given and has not withdrawn its respective written consent to the publication of the announcement with inclusion of its report/letter and all references to its name (including its qualifications) in the form and context in which they are included.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of the independent valuer and Baker Tilly Hong Kong is a third party independent of the Group and is not a connected person of the Group. As at the date of the announcement, neither the independent valuer nor Baker Tilly Hong Kong has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

In order to further implement the national strategy of ecological protection of the Yangtze River, the People's Government of Fanchang District, Wuhu, Anhui Province, intends to include the second wastewater treatment plant project of Fanchang County, which is invested, constructed and operated by Fanchang Dianchi Water, into the asset package of the water environment improvement project of Fanchang District for re-planning, operation and management, and after negotiations, the People's Government of Suncun Town decided to buy back the second wastewater treatment plant project of Fanchang County by way of acquiring the equity interest of Fanchang Dianchi Water. The Disposal will allow the Company to recover its investment and earnings in advance, thereby providing the Company with greater flexibility in identifying and participating in other suitable investment opportunities.

The Directors consider that the terms of the Disposal and the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, Fanchang Dianchi Water will cease to be consolidated into the accounts of the Group. With reference to the audited net asset value of Fanchang Dianchi Water as at the Base Date of approximately RMB52,251,600, the estimated net gain before taxation of the Disposal is approximately RMB26,150,000. The actual gain or loss on the Disposal may differ from the above as the consideration for the Transitional Period and the final interest on the borrowings have not yet been finalised and is subject to final audit by the auditors.

The net proceeds from the Disposal will be used as general working capital of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 5% but all are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

“Base Date”	the audit and valuation base date of the Disposal, being 30 June 2021
“Board”	the board of Directors
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company incorporated in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“Completion”	completion of the Disposal
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	total consideration for the Disposal as confirmed under the Equity Transfer Agreement
“Directors”	the director(s) of the Company
“Disposal”	the disposal of 100% equity interest in Fanchang Dianchi Water by the Company to the People’s Government of Suncun Town under the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement dated 29 June 2022 between the Company, the People’s Government of Suncun Town and Fanchang Dianchi Water in relation to the Disposal

“Fanchang Dianchi Water” or “Target Company”	Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司), a company with limited liability incorporated in the PRC, which is owned as to 100% by the Company as of the date of this announcement
“Group”	the Company and its subsidiaries
“independent third party”	a third party independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“People’s Government of Suncun Town” or “Purchaser”	the People’s Government of Suncun Town, Fanchang District, a governmental authority of the PRC
“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Transitional Period”	the period from the Base Date to the date of completion of transfer of operation and management rights from the Company to the People’s Government of Sunchun Town
“ZhongHe Appraisal”	ZhongHe Appraisal Co., Ltd. (中和資產評估有限公司), a company with limited liability incorporated in the PRC, which is engaged to provide valuation services in respect of the value of the entire shareholders’ equity of Fanchang Dianchi Water in connection with the Disposal, and is an independent third party
“%”	per cent.

By Order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

Kunming, the PRC, 29 June 2022

As of the date of this announcement, the Board comprises Mr. Zeng Feng, Mr. Chen Changyong and Mr. Luo Yun, as executive Directors; Ms. Song Hong, Ms. Ren Na and Ms. Yu Yanbo, as non-executive Directors; and Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

29 June 2022

The Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, One International Finance Centre,
1 Harbour View Street,
Central, Hong Kong

Dear Sirs or Madams,

**DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF
100% EQUITY INTEREST IN A SUBSIDIARY**

Reference is made to the valuation report dated 25 May 2022 prepared by ZhongHe Appraisal Co., Ltd. in relation to the valuation (the “**Valuation**”) of 100% shareholders’ equity of Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司) as at 30 June 2021. The Valuation is prepared under the income based approach, which involves the calculations of discounted future estimated cash flows, therefore constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have reviewed the bases and assumptions based on which the Valuation has been prepared, and reviewed the Valuation for which ZhongHe Appraisal Co., Ltd. is responsible. We have also considered the letter of confirmation from auditor of our Company, Baker Tilly Hong Kong Limited, regarding whether the Valuation was compiled properly so far as the calculations are concerned. We hereby confirm that the calculations of discounted future estimated cash flows in the Valuation were made after due and careful enquiry.

By Order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

APPENDIX II LETTER OF CONFIRMATION FROM THE AUDITOR

29 June 2022

Our Ref.: K533s (pf)/jg/dww/kl/u22

Private & Confidential

The Board of Directors
Kunming Dianchi Water Treatment Co., Ltd.
Water Purification Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
PRC

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF 繁昌縣滇池水務有限公司 (FANCHANG DIANCHI WATER TREATMENT CO., LTD. *)

**TO THE BOARD OF DIRECTORS OF KUNMING DIANCHI WATER TREATMENT CO., LTD.
(THE “COMPANY”)**

We refer to the discounted future cash flows on which the business valuation (the “Valuation”) dated 25 May 2022 prepared by 中和資產評估有限公司 (ZhongHe Appraisal Co., Ltd.*) in respect of the appraisal of the fair value of the entire equity interest of 繁昌縣滇池水務有限公司 (Fanchang Dianchi Water Treatment Co., Ltd.*) (the “Target Company”) as at 30 June 2021 is based. The Valuation is prepared based in part on the discounted future cash flows and are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS’ RESPONSIBILITIES

The directors of the Company (the “Directors”) are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation and the Company’s announcement dated 29 June 2022 in connection with the proposed disposal of 100% equity interest in the Target Company (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

* For identification purpose only

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 Hong Kong Institutes of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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 report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

BASIS OF OPINION

We conducted our engagement 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 HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the Assumptions. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

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

OTHER MATTERS

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

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 29 June 2022

Gao Yajun

Practising Certificate Number P06391