

## **VALUATION REPORT**

**Valuation Services in relation to  
the Proposed Disposal of the 100% Equity Value of  
Zhejiang Shaoxing Huiju Water Technology Co., Ltd.**

**Prepared for:**

**Zhejiang Yongan Rongtong Holdings Co., Ltd.**

**Valuation Date:**

**30 September 2023**



**STRICTLY CONFIDENTIAL**

Ref. No: J23-02284

The Board of Directors

5 February 2024

**Zhejiang Yongan Rongtong Holdings Co., Ltd.**

Xiwu Industrial Park.

Hutang Street, Keqiao District,

Shaoxing City, Zhejiang Province,

the People's Republic of China

Dear Sirs / Madams,

**Re: Valuation of the 100% Equity Value of Zhejiang Shaoxing Huiju Water Technology Co., Ltd.**

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted valuation in connection with the fair value of the 100% equity interest of Zhejiang Shaoxing Huiju Water Technology Co., Ltd. ("**Zhejiang Shaoxing Huiju**" or the "**Target**") for Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "**Company**", "**Zhejiang Yongan**" or "**you**") as of 30 September 2023 (the "**Valuation Date**"). We understand that the Company entered into an agreement in relation to the disposal of the 100% equity interest in the Target (the "**Proposed Disposal**").

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

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

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

## **BASIS OF ANALYSIS**

We have appraised the fair value of the 100% equity value of the Target.

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

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

## **COMPANY AND DISPOSAL BACKGROUND**

Zhejiang Yongan is listed on the Growth Enterprise Market Board ("**GEM**") of the Hong Kong Stock Exchange in 2002 (SEHK:8211). It is mainly engaged in the design, manufacture and sales of woven fabrics internationally, as well as the provision of woven fabrics subcontracting services.

The Company owns 100% equity interest of the Target as of the Valuation Date. The Target is an investment holding company that principally holds 41.67% of the equity interest of Beijing Tepia Technology Co., Ltd. ("**Tepia**") and its subsidiary (collectively "**Tepia Group**"). The Management confirms that the Target does not have any business operation other than holding the investment of Tepia Group.

Tepia Group is listed on the National Equities Exchange and Quotations ("**NEEQ**"). Tepia Group is principally engaged in software development, system integration and information planning and design for water management systems. It is also engaged in the development and sales of industrial circulating water treatment equipment to solve the problems of industrial circulating water fouling, corrosion and algae breeding through electrochemical and electromagnetic mixing physical technology.

We understand that the Company intends to dispose 100% of the equity interest of the Target as previously defined as the Potential Disposal. Based on our discussion with the Company, the trading shares of Tepia Group on the NEEQ are considered illiquid, where shares were not traded daily and have been of negligible trading volume. Consequently, no significant emphasis on the NEEQ share prices of Tepia Group has been placed and the Company has engaged us to assess the fair value of the Target.

The Proposed Disposal constitutes a major and connected transaction for the Company and is, therefore, subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19.07 and Chapter 20 of the Rules Governing the Listing of Securities on GEM made by The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

As such, the Company engaged us as an independent valuer to assess the fair value of the 100% equity interest of the Target as of the Valuation Date.

#### **SCOPE OF WORK**

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;
- Carried out research in the sectors concerned and collected relevant market data from reliable sources for analysis;
- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;
- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the Target; and
- Compiled this Report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

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

## ECONOMIC OVERVIEW

### Overview of China's Economy

In 2023Q3, China's economy exhibited positive momentum of ongoing recovery and performance improvement. According to the National Bureau of Statistics ("NBS"), China's gross domestic product ("GDP") increased to RMB 31,999 billion in 2023Q3, achieving a 4.9% year-on-year ("y-o-y") growth. The key drivers of this growth were attributable to the hotels and catering services sector, with a 12.7% y-o-y increase, followed by the information transmission, software, and information technology sector, with a 10.3% y-o-y growth. Nonetheless, due to the current real estate crisis, the real estate industry fell by 2.7% y-o-y in 2023Q3, partially offsetting the growth in the other sectors. Overall, with a 5.2% y-o-y GDP growth in the first three quarters of 2023, the annual target of 5% growth for 2023 is expected to be achieved.

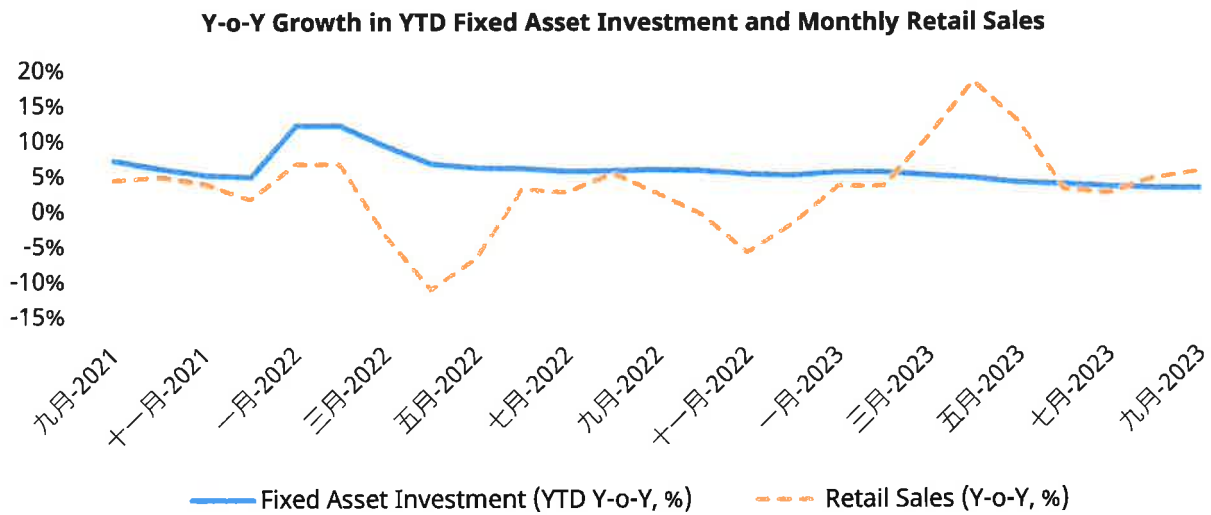
Domestic consumption continued to recover significantly in the first three quarters of 2023. Total retail sales of consumer goods reached RMB 34,211 billion, achieving a y-o-y growth rate of 6.8%. Fixed asset investment amounted to RMB 37,504 billion with the y-o-y growth rate slowed down to 3.1%.

Regarding foreign trade, exports in the first three quarters of 2023 increased by 0.6% y-o-y to RMB 17.6 trillion, while imports dropped by 1.2% y-o-y to RMB 13.2 trillion. As a result, the total trade volume amounted to RMB 30.8 trillion in the first three quarters of 2023, with a y-o-y growth rate of 0.2%. The total trade volume in September reached a new monthly high of RMB 3.7 trillion in 2023.

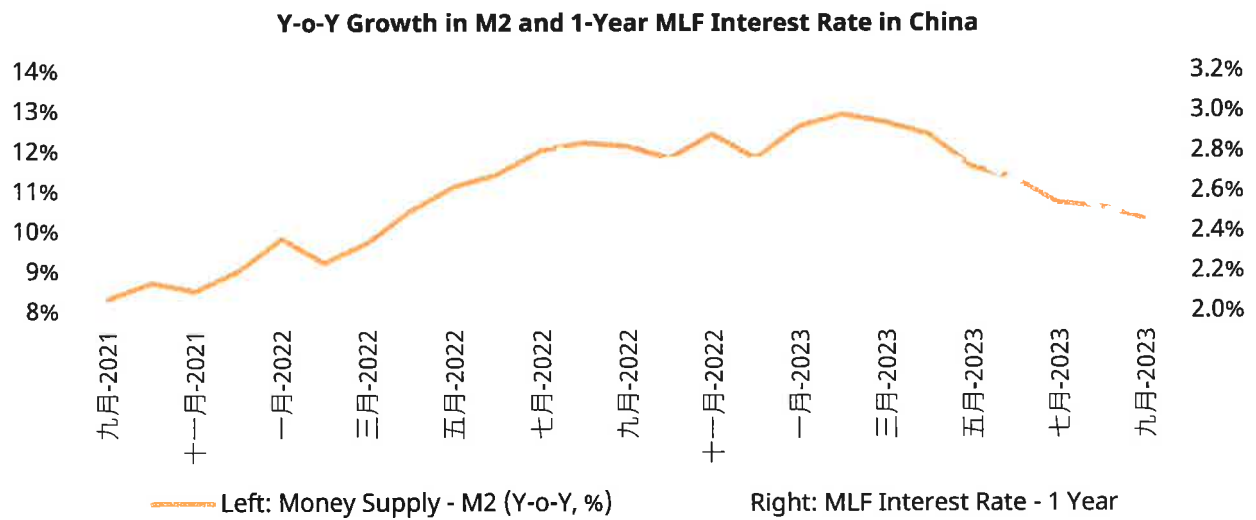
China's price level was maintained at a stable level. NBS announced that the consumer price index ("CPI") for September 2023 remained unchanged compared to the previous year. This was primarily attributed to the influence of a high base effect from 2022. Meanwhile, the producer price index ("PPI") witnessed a y-o-y decrease of 2.5% in September 2023, which was the smallest decrease since March 2023. This was mainly driven by the gradual recovery in demand for industrial products and the rising crude oil prices in the global market.

In order to maintain the banking system liquidity, the People's Bank of China (the "PBoC") executed a RMB 591 billion medium-term lending facility ("MLF") operation in September, with a constant interest rate of 2.5%. In addition, according to the PBoC, the money supply ("M2") at the end of September 2023 was RMB 290 trillion, with a y-o-y growth rate of 10.3%, slightly slower than the growth rate of 11.3% in June 2023. The MLF operation and the increase in M2 contributed to lower borrowing costs, thereby facilitating economic activities.

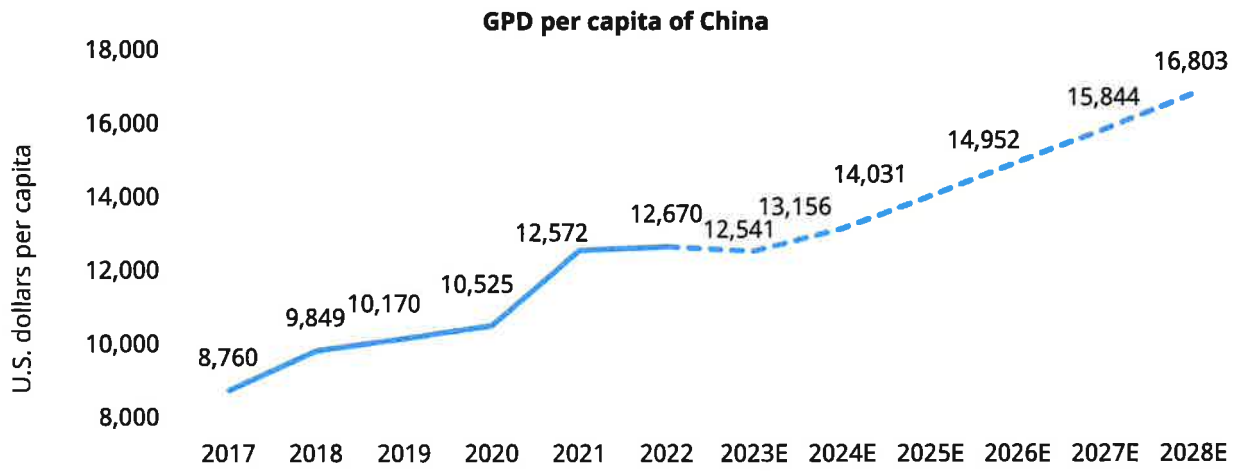
Looking forward, as economic activities continue to recover, it is expected that China’s economy will grow steadily. According to the International Monetary Fund (“IMF”), it is anticipated that the GDP per capita of China will grow from USD 12,670 in 2022 to USD 16,803 in 2028, with a compound annual growth rate (“CAGR”) of 4.8%. Nonetheless, the IMF has also highlighted the uncertainty caused by the real estate crisis, which could affect the economy in the short term.



Source: NBS



Source: NBS, the PBoC



Source: IMF

## INDUSTRY OVERVIEW

### Overview of China's Industrial Water Treatment Industry

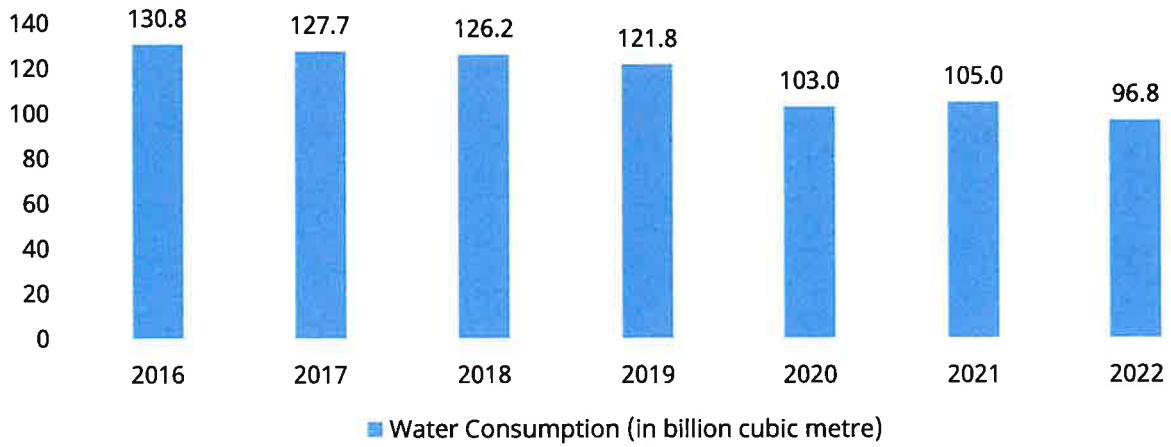
The annual water consumption from industrial sector demonstrates a decreasing trend in recent years in China. According to the Ministry of Water Resources of the People's Republic of China, the annual water consumption from industrial sector has decreased from 130.8 billion cubic metres ("m<sup>3</sup>") in 2016 to 96.8 billion m<sup>3</sup> in 2022, showing a CAGR of -4.9% between the period. Among all provinces in China, Jiangsu province had the highest industrial water consumption, accounting for more than one-fourth of the total industrial water consumption of China, followed by Hubei province and Anhui province, accounting for 8.4% and 8.1% of the total industrial water consumption in 2022 respectively.

One of the major factors contributing to the drop in water consumption in the industrial sector is the improvement of water usage efficiency. The adoption of the recirculating water system from the once-through water system allows used industrial water, such as contaminated or cooling water, to be repeatedly used, reducing the amount of water consumption by the industries. Other factors, including the advanced technologies in the crystallization process and the promotion of cloud computing and big data to monitor the status of recirculating water systems, also play a vital role in improving water usage efficiency.

According to the implementation plan published by the Ministry of Industry and Information Technology of the People's Republic of China and five other national departments, the 2020 recycling rate of industrial water in China was 92.5%, with the target aiming to reach 94% by the end of 2025. Meanwhile, the implementation plan also emphasized the development of recirculation technologies, together with "the National 14th Five-Year Plan", which aims to develop a higher efficiency in wastewater treatment.

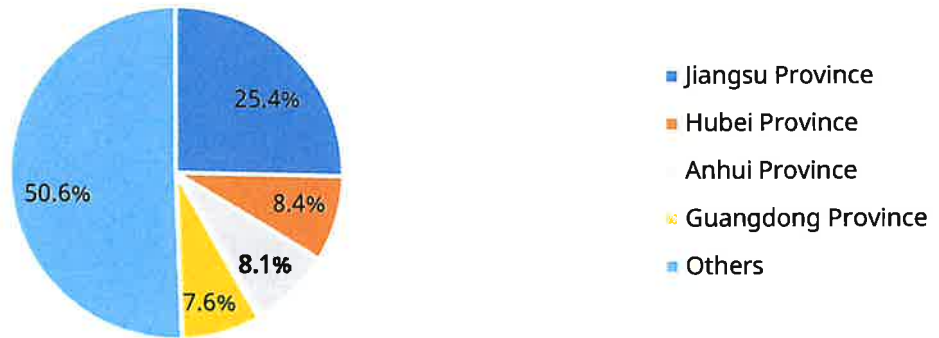


**Annual Water Consumption of Industrial Sector in China**



Source: Ministry of Water Resources of the People's Republic of China

**Annual Water Consumption from Industrial Sector by Province in 2022**



Source: Ministry of Water Resources of the People's Republic of China

## LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

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

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us, whether written or verbal, in the Report, especially for the historical financial information of Tepia Group of the trailing 12-months (“**LTM**”) period ended 30 September 2023 provided by the Management. No representation or warrant, expressed or implied, is made and we accept no responsibility concerning the accuracy, completeness or adequacy of all such information.

Based on our discussion with the Company, no significant emphasis on the NEEQ share prices of Tepia Group has been considered in this Report as the trading shares of Tepia Group on the NEEQ are considered illiquid with negligible trading volume. Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for the accuracy and reliability of any information obtained from public sources.

The outbreak of the Coronavirus Disease 2019 (“**COVID-19**”), as declared by the World Health Organization as a global pandemic on 11 March 2020, has been adversely affecting the global economy and the financial markets. As such, the subsequent impact due to COVID-19 has imposed an unprecedented set of circumstances on which to base a valuation judgment as of the Valuation Date. In particular, the increased volatility in political, legal, fiscal, and economic conditions and/or other market situations as a result of COVID-19 would bring higher uncertainties to the underlying assumptions. Consequently, a higher degree of caution should be attached to our valuation than would normally be the case.

## VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

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

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the nature of business and historical financial performance of the Target
- the business risks of the Target;
- the financial condition of the Target;
- the selected comparable companies are engaging in business operations similar to Tepia Group;
- the experience of the management team of the Target and support from its shareholders; and
- the legal and regulatory issues of the industry in general.

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

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements entered into between Tepia Group and any other parties will be honored;
- The Target will retain and have competent management, key personnel, and technical staff to support their ongoing operating and will continue to operate as a going concern and have sufficient liquidity and capability;
- We have not considered the trading share price of Tepia Group on the NEEQ as it is deemed illiquid with negligible trading volume; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

## VALUATION APPROACH

### General Valuation Approaches

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

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

The fundamental method for income approach is the discounted cash flow (“DCF”) method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

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

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

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

### **Selected Valuation Approach**

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal, given the Management confirms the Target does not have any business operation other than holding the investment of Tepia Group, the fair value of the Target is derived by first determining the fair value of Tepia Group and adding it to the fair values of assets and liabilities on the balance sheet of the Target as of the Valuation Date. Regarding the fair value of the equity interest of Tepia Group, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in current appraisal as it assumed the assets and liabilities of Tepia Group are separable and can be sold separately. This methodology is more appropriate for the industries that its assets are highly liquid, like property development and financial institution. Thus, Cost Approach is not adopted in this valuation.
- Income Approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projections of Tepia Group, and the assumptions might not be able to reflect the uncertainties in the future performance of Tepia Group. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.
- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies and/or the comparable transactions were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of Tepia Group, their market values are good indicators of the industry of Tepia Group. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing market approach, namely comparable transactions and comparable companies.

### Comparable Transactions Method

The comparable transactions are selected for Tepia Group with reference to the following selection criteria:

- The primary industry of the acquiree is being in industry of Industrial Machinery and Supplies and Components or Environmental and Facilities Services, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the acquiree is in the provision of the design, development and manufacture of industrial water treatment machinery in China;
- The transaction was completed and announced between October 2022 and September 2023; and
- The financial information of the acquiree is available to the public.

Based on the above selection criteria, there was one available comparable transaction with the acquiree engaging in similar businesses as Tepia Group during the selected period. Details of the selected comparable transaction are illustrated as follows:

Announcement Date	25 May 2023
Transaction Closed Date	24 May 2023
Acquiree	Guangxi Bossco Environmental Protection Technology Co.,Ltd.
Acquirer	Ningguo State-owned Capital Holding Group Co., Ltd
Business Description of the Acquiree	Guangxi Bossco Environmental Protection Technology Co.,Ltd. Provides environmental management, professional technical, and operations services in China and internationally. The company offers industrial wastewater treatment solutions, which includes up-flow multistage anaerobic reactor and heterogeneous oxidation towers. It also provides urban and rural environmental services, including urban black odor water treatment services; water supply and drainage integration projects; and sewage treatment system equipment.
% of Shareholding Acquired	10.34%
Consideration	RMB 519.4 million
Implied Price-to-sales Multiple	2.5x

Given the fact that only one recent comparable transaction can be identified, we consider that the multiple derived based on comparable transactions may not be representable for our valuation, and thus, the comparable transactions method is not appropriate as the primary method for the valuation of 100% equity interest of Tepia Group.

### **Comparable Companies Method**

Comparable companies method is therefore selected as the primary method for the valuation of the 100% equity interest of Tepia Group. By adopting comparable companies method, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

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

- The primary industry of the companies is being in industry of Industrial Machinery and Supplies and Components or Environmental and Facilities Services, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is in the provision of the design, development and manufacturing of industrial water treatment machinery in China;
- The companies are listed in all major exchange markets in China (including Hong Kong); and
- The financial information of the companies is available to the public.

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

Details of the selected comparable companies are listed as follows:

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) <sup>(1)</sup>
1)	Beijing Sys Science & Technology Co., Ltd. ("Sys Science")	SZSE: 301372	China	Beijing Sys Science & Technology Co., Ltd. provides water environment system treatment services in China. The company offers water treatment products, water environment management solutions, and operational services. It also designs, consults, and services sewage treatment.	Relevant to the business of Tepia Group: Water Treatment Products (53.3%)
2)	Cscec Scimee Sci.&Tech. Co., Ltd ("Cscec Scimee")	SZSE: 300425	China	Cscec Scimee Sci.&Tech. Co.,Ltd manufactures and sells environmental protection equipment and services in China. It offers magnetic separation products, such as magnetic separation water purification equipment and rare earth disk separation and purification wastewater equipment.	Relevant to the business of Tepia Group: Water Treatment Business Segment (71.2%)
3)	Jiangsu Jingyuan Environmental Protection Co.,Ltd. ("Jiangsu Jingyuan")	SHSE: 688096	China	Jiangsu Jingyuan Environmental Protection Co., Ltd. provides water treatment solutions in China. The company offers industrial waste treatment equipment and systems, including coal-containing wastewater treatment, desulfurization wastewater treatment, and electrocatalytic oxidation treatment systems.	Relevant to the business of Tepia Group: Industry Water Treatment (70.1%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data as of the Valuation Date from Bloomberg.



#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) <sup>(1)</sup>
4)	Zhejiang Haiyan Power System Resources Environmental Technology Co.,Ltd. (“ <b>Haiyan Power System</b> ”)	SHSE: 688565	China	Zhejiang Haiyan Power System Resources Environmental Technology Co.,Ltd. researches, designs, develops, and integrates water treatment systems for nuclear and thermal power plants, metallurgy, chemical, and other industrial enterprises and municipal industries in China. It offers condensate polishing, demineralized water treatment, sewage treatment, and smart power station equipment and other systems.	Relevant to the business of Tepia Group: Condensate Polishing System Equipment (49.6%); Water Diversion Engineering System Equipment (22.7%); Demineralized Water Treatment System Equipment (20.2%)
5)	Anhui Shunyu Water Affairs Co.,Ltd. (“ <b>Anhui Shunyu</b> ”)	SZSE: 301519	China	Anhui Shunyu Water Affairs Co.,Ltd. engages in the research, design, development, manufacture, installation, commissioning, upgrading, and sale of secondary water supply and sewage treatment equipment in China. It is also involved in the research, development, and construction of the intelligent management platform.	Relevant to the business of Tepia Group: Sewage Treatment (59.9%)
6)	Cec Environmental Protection Co.,Ltd (“ <b>Cec Environmental</b> ”)	SZSE: 300172	China	CEC Environmental Protection Co.,Ltd provides ecological environmental management services. The company’s activities comprise industrial water treatment; urban sewage treatment and water environment treatment; solid and hazardous waste disposal, sludge drying and coupling treatment, and soil remediation; kitchen and food waste co-treatment.	Relevant to the business of Tepia Group: Industrial Water Treatment (49.6%); Urban Water Environment Management (24.8%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data as of the Valuation Date from Bloomberg.

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s) <sup>(1)</sup>
7)	Guangxi Bossco Environmental Protection Technology Co.,Ltd. (“Guangxi Bossco”)	SZSE: 300422	China	Guangxi Bossco Environmental Protection Technology Co.,Ltd. provides environmental management, professional technical, and operations services in China and internationally. The company offers industrial wastewater treatment solutions, which includes up-flow multistage anaerobic reactor and heterogeneous oxidation towers.	Relevant to the business of Tepia Group: Comprehensive Environmental Governance – Water Treatment (51.4%)

Source: S&P Capital IQ and Bloomberg

(1) Based on the latest annual financial data as of the Valuation Date from Bloomberg.

As over 50% of revenue of the above comparable companies are generated from the design, development and manufacturing of industrial water treatment machinery, these comparable companies, together with Tepia Group, are considered to be similarly subject to the fluctuations in the economy and performance of the water treatment industry, among other factors. Thus, we consider they are confronted with similar industry risks and rewards.

Below are the financial details of the comparable companies:

#	Company Name	Stock Code	Listing Location	For the Twelve Months Ended 30 June 2023		As of 30 June 2023	As of 30 September 2023
				Sales	Net Profits/ (Losses)	Net Asset/ (Net Debt) Value	Market Capitalization
<i>(In RMB million)</i>							
1)	Sys Science	SZSE: 301372	China	431	84	321	3,987
2)	Cscec Scimee	SZSE: 300425	China	1,752	193	2,180	3,345
3)	Jiangsu Jingyuan	SHSE: 688096	China	521	46	856	1,462
4)	Haiyan Power System	SHSE: 688565	China	217	(55)	578	1,320
5)	Anhui Shunyu	SZSE: 301519	China	801	108	744	3,983
6)	Cec Environmental	SZSE: 300172	China	955	85	1,825	4,534
7)	Guangxi Bossco	SZSE: 300422	China	1,992	(361)	2,286	3,090

Source: S&P Capital IQ

### **Adopted Valuation Multiples**

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of Target, in which we have considered price-to-earnings (“P/E”), price-to-book (“P/B”), price-to-sales (“P/S”), enterprise value/sales (“EV/S”), enterprise value/earnings before interests and taxes (“EV/EBIT”) and enterprise value/earnings before interests, taxes, depreciation and amortization (“EV/EBITDA”) multiples.

P/B multiple is considered not appropriate for the valuation of Tepia Group because book value captures only the tangible assets of a company which, if a company creates any added market value (as reflected by a P/B multiple of larger than one), should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the P/B multiple and so in general, the equity’s book value has little bearing with its fair value. Thus, the P/B multiple is not a good measurement of the fair value of a company.

P/E, EV/EBIT and EV/EBITDA multiples are considered not appropriate for this valuation because Tepia Group recorded net losses, negative EBIT and negative EBITDA for the LTM period as of the Valuation Date. No meaningful results based on P/E, EV/EBIT and EV/EBITDA multiples of the comparable companies can be generated. Thus, P/E, EV/EBIT and EV/EBITDA multiples are not adopted in the valuation of Tepia Group.

P/S multiple is considered not appropriate for the valuation of Tepia Group because it does not capture differences in financial leverage and related risk features across the companies. Thus, P/S multiple is not adopted in the valuation of Tepia Group.

Therefore, EV/S multiple is considered to be the most appropriate indicator of the fair values of the comparable companies, as the multiple eliminates the difference in capital structure and related risk features. Hence, it is adopted in the valuation of Tepia Group. Enterprise value is generally derived based on the market capitalization of a company, plus net debt (total debt minus cash and short-term investment), minority interest and preferred shares.

The EV/S multiples of comparable companies of Tepia Group are as follows:

No.	Company Name	Currency (in million)	Enterprise Value as of 30 September 2023 <sup>(1)</sup>	LTM Sales <sup>(2)</sup>	LTM EV/S Multiple
1	Sys Science	RMB	4,266	431	9.9x
2	Cscec Scimee	RMB	4,154	1,752	2.4x
3	Jiangsu Jingyuan	RMB	1,865	521	3.6x
4	Haiyan Power System	RMB	1,386	217	6.4x
5	Anhui Shunyu	RMB	4,633	801	5.8x
6	Cec Environmental	RMB	4,231	955	4.4x
7	Guangxi Bossco	RMB	7,776	1,992	3.9x
				Maximum	9.9x
				<b>Median<sup>(3)</sup></b>	<b>4.4x</b>
				Minimum	2.4x

Notes:

- (1) Data sourced from S&P Capital IQ. The enterprise values of the comparable companies are computed based on the market capitalization of the companies as of 30 September 2023 and the latest financial data of the comparable companies available as of the Valuation Date.
- (2) Data sourced from S&P Capital IQ based on latest financial data of the comparable companies available as of the Valuation Date.
- (3) Median and average share the same role in understanding the central tendency of a sets of numbers. Median, which would not be affected by extreme values, is regarded a better mid-point measure for skewed number distributed. Hence, median is adopted to derive the result, which we consider to be a more reasonable approach to prevent the outliers from distorting the result.

## VALUATION RESULT

(in RMB'000 unless otherwise specified)

LTM Sales of Tepia Group <sup>(1)</sup>	20,298
Median of EV/S Multiple	4.4x
<b>Estimated 100% Enterprise Value of Tepia Group (Marketable basis)</b>	<b>89,311</b>
Less: Debt <sup>(1)</sup>	(476)
Add: Cash and Cash Equivalents <sup>(1)</sup>	9,363
<b>Estimated 100% Equity Value of Tepia Group (Marketable basis)</b>	<b>98,198</b>
Less: Lack of Marketability Discount ("LOMD") <sup>(2)</sup>	20.5%
<b>Estimated 100% Equity Value of Tepia Group (Non-marketable basis)</b>	<b>78,067</b>
Shareholding % of Tepia Group held by the Target	41.67%
<b>Estimated 41.67% Equity Value of Tepia Group (Non-marketable basis)</b>	<b>32,531</b>
Add: Net Assets / (Liabilities) of the Target <sup>(3)</sup>	2
<b>Fair Value of 100% Equity Value of the Target</b>	<b>32,533</b>

### Notes:

- (1) The financial data for the period 1 October 2022 to 30 September 2023, which is based on the audited financial statements of Tepia Group provided by the Management for the year ended 31 December 2022 and the 9-month periods ended 30 September 2022 and 30 September 2023 respectively.
- (2) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

The EV/S multiples adopted in the valuation were calculated from public listed companies, which represent marketable ownership interest. Fair value calculated using such EV/S multiple, therefore, represent the marketable interest. Thus, LOMD was adopted to adjust such marketable interest fair value to non-marketable interest fair value.

The report "Stout Restricted Stock Study Companion Guide (2022 edition)" by Stout Risius Ross, LLC, a reputable research company, suggested a marketability discount is 20.5%. A marketability discount of 20.5% is considered appropriate and suitable for this valuation as the Target is a privately held company.

We understand that Tepia Group is an entity with its equity shares publicly traded in the NEEQ, which is an over-the-counter trading platform in China. Based on the information obtained from NEEQ, equity shares of the Tepia Group

are not traded on a daily basis, and the transaction volume is negligible. Hence, we consider the listing status of Tepia Group on NEEQ may not provide sufficient liquidity for the immediate transaction of equity interest in Tepia Group, and thus, a marketability discount of 20.5% is considered appropriate and suitable for this valuation.

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

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

- (3) The Target is an investment holding company, which holds the 41.67% equity interest in Tepia Group without any other business operation as represented by the Management. The fair value of the Target is therefore considered to be the sum of the fair value of the equity investment in Tepia Group and the values of other assets and liabilities on the balance sheet of the Target as of the Valuation Date. The value of the net asset of the Target is based on the unaudited financial statements of the Target (on company level) as of 30 September 2023 provided by the Management. The entire balance is cash and cash equivalents, and therefore, the book value is considered representative to be its fair value.

## CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that as of the Valuation Date, the fair value of the 100% equity value of the Target is **RMB 32,533,000 (RENMINBI THIRTY-TWO MILLION FIVE HUNDRED AND THIRTY-THREE THOUSAND ONLY)**.

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in Zhejiang Yongan Rongtong Holdings Co., Ltd., the Target nor the value reported.

Yours faithfully,

For and on behalf of

**AVISTA Valuation Advisory Limited**

  
**Vincent C B Pang**

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



## **APPENDIX – GENERAL LIMITATIONS AND CONDITIONS**

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

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.
- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the equity interest of the Target appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.
- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.
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