China Boqi Environmental (Holding) Co., Ltd.
中國博奇環保(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2377)

SUPPLEMENTAL ANNOUNCEMENT ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

Reference is made to the announcement of China Boqi Environmental (Holding) Co., Ltd. (the "**Company**") dated 30 November 2021 in relation to acquisition of the entire equity interest of the Target Company (the "**Announcement**"). Unless otherwise defined herein, capitalised terms shall have the same meanings as given to them in the Announcement.

The Board wishes to provide the Shareholders and potential investors of the Company with supplemental information as follows:

THE VALUATION OF THE TARGET COMPANY

Valuation Methodology and Specific Key Assumptions

The Group engaged China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) ("**China Alliance**" or the "**Valuer**"), an independent asset valuation company established in the PRC to assess and determine the valuation of the entire interest in the Target Company as at 30 June 2021 (the "**Valuation**") (for more information on the Valuer, please see the paragraph headed "**INFORMATION OF THE VALUER**" below).

Pursuant to the valuation report date 25 October 2021 prepared by China Alliance (the "**Valuation Report**"), China Alliance used the (i) earning value method; and (ii) asset-based method in assessing the Valuation. The earning value method is based on the present value of the Target Company's future cash flow, covering the value of intangible assets such as customer resources, goodwill, and human resources. The asset-based method refers to the method of assessing the value of the assets and liabilities on the Valuation date.

Given that the Valuation adopted, among others, earning value method involving the use of discounted cash flows, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. This announcement is made in compliance with Rules 14.60A and 14.62 of the Listing Rules.

Pursuant to the Valuation Report, details of the principal assumptions including commercial assumptions are set out as follows:

1. General assumptions

   a. it is assumed that all assets to be valued are already in the process of transaction, the assets are valued by the Valuer in a simulated market based on the terms of the transaction; and

   b. it is assumed that all assets traded or to be traded are conducted in an open market, where the buyers and sellers are on an equal footing with equal time and opportunity to gain sufficient access to market information for them to make rational judgment about the function and use of the assets and their transaction price, etc.

2. Specific assumptions

   a. it is assumed that the Valuation is being done for the purpose of the Acquisition;

   b. it is assumed that there are no material changes to the relevant laws and regulations and macroeconomic conditions, and it is also assumed that there are no unforeseen material changes in the external economic environment such as interest rates, exchange rates, taxation bases and rates, and policy levies;

   c. it is assumed that future management of the Target Company will act diligently, and the existing management model, scope of business, and business model will remain consistent with the current direction;

   d. it is assumed that the assets will continue to be utilized in the present manner and for the same purpose and extent, the assets will not be valued in its optimal settings;

   e. it is assumed that based on the existing management level and management style, the Target Company has no other force majeure events or unforeseeable factors causing material adverse impact on the Target Company;

   f. it is assumed that the relevant basic and financial information provided by the Target Company and the Purchaser is true, accurate and complete;

   g. it is assumed that all financial reports and transaction data of the comparable companies which the Valuer relied upon are true and reliable;

   h. it is assumed that the scope of the Valuation is based on the list of assets provided by the Purchaser and the Target Company, without taking into account the contingent assets and contingent liabilities that may exist outside of the said list;

   i. it is assumed that the current management team of Target Company remains unchanged;

   j. it is assumed that the Target Company evenly receives net cash flow in each financial year;

k. the "Jingze Environmental Protection Solid Waste Integrated Utilization Project (景澤環保固廢資源綜合利用專案)" is valued at RMB102 million and the construction progress is more than 95% as of the Valuation date. The construction of the rigid (except for no.2, no.3 and no.4 rigid landfills) and flexible landfill, solidification workshop and factory, office building and its ancillary facilities, and stabilization and sewage treatment system etc. have been completed. It is assumed that the "Zesheng Environmental Ecosystem Project (澤盛環保生態環保項目)" is completed and has passed the completion inspection, and the relevant title certificates of the buildings can be successfully obtained;

l. the Target Company has commenced operation since it has obtained the Hazardous Waste Operation Permit on 21 September 2019. The said permit is valid from 15 September 2020 to 14 September 2025, with an approved operation scale of 90,000 tons per year. It is assumed that the Target Company will be able to renew the said permit in 2025 when it expires;

m. it is assumed that the Target Company's formal operation period is 15.5 years which is the same as the useful life of Phase I hazardous waste treatment site of the Target Company; and

n. the Target Company enjoys absolute tax exemption for the first three years and a 50% reduction for the next three years during the period from 2019 to 2024. It is assumed that the tax rate after the tax exemption period would be 25%.

The Projected Income and the Discount Rate

The Valuation was estimated based on the projected income of the Target Company for a period of 15.5 years (i.e. from second half of financial year ended 2021 to financial year ended 2036) (the "**Projected Income**") and discounted back to present value. The Projected Income, which was calculated based on (1) forecast disposal volume times (2) forecast disposal unit price (excluding tax), was provided by the management of the Target Company according to its mid to long term business plan after considering the following:

(1) ***Forecast disposal volume*** – The forecast disposal volume was determined primarily based on (i) total forecast period and total landfill capacity; (ii) historical disposal volume; (iii) existing and potential orders; (iv) special situation for financial year ended 2021, mainly comprising the impact of the delayed completion of one of the rigid landfills of the Jingze Project (please refer to paragraph headed "BASIS OF THE CONSIDERATION" for further details) and the outbreak in Qinghai Province; and (v) expected gradual increase in disposal volume until reaching maturity landfill capacity, which is in line with the general industry trend and inherent nature of the industry.

(2) ***Forecast disposal unit price*** – The forecast disposal volume was determined primarily based on (i) historical disposal unit price; (ii) existing and potential orders; (iii) nature of landfill which affects disposal unit price and the Target Company's strategies to gradually adjust the proportion of rigid and flexible landfill disposal volume; and (iv) indicative disposal unit price published by the relevant PRC government authority.

Pursuant to the Valuation Report, as the Target Company is not a listed company, the discount rate cannot be determined through direct calculation. Hence, the discount rate of the Target Company was determined based on estimates with reference to comparable companies. Accordingly, the Valuer first selected comparable listed companies and estimated systemic risks (the "**levered beta**") of the comparable listed companies. Then, the Valuer compared the capital structure and the levered beta of the comparable listed companies and the Target Company's expected rate of return based on its capital structure. As a result, the discount rate, being the weighted average cost of capital, for the Valuation was concluded at the range of 10.88% and 11.07%.

Fairness and Reasonableness of the Valuation Methodology and Specific Key Assumptions

After reviewing the Target Company's financial conditions, historical performance, and future earnings estimates, and taking into account the purpose of the Valuation, the Valuer considered that the earning value method is a more appropriate and suitable valuation approach to accurately reflect the market value of the Target Company since (i) the asset-based method can only reflect the value of the Target Company's assets, without reflecting the overall value of the Target Company; (ii) the earning value method covers the value of intangible assets such as customer resources, goodwill, and human resources; and (iii) the Target Company has strong intangible assets due to the facts that (a) the core management team has 20 years of experience in hazardous waste disposal operations, and (b) the Target Company has formed its own customer resource library and professional business philosophy, strategy, and method after the establishment in August 2018.

During discussion with China Alliance and after reviewing the Valuation Report, the Board did not identify any major factors which would cause us to doubt the fairness and reasonableness of the methodology, and the underlying assumptions adopted for the Valuation. Based on the abovementioned, the Board was of the view that the relevant bases, assumptions and valuation methodologies regarding the Valuation are comparable to the market practice and satisfied that the Valuation was fair and reasonable taking into account the circumstances of the Target Company. In addition, the Directors, having discussed with the Valuer on the assumptions, premise and forecasting process of the Projected Income, were of view that the Projected income is reasonably justified with regard to the relevant factors, including the Target Company's financial status, historical performance, prospects, comparable acquisitions on the market, government policy supports and industry conditions. For further details on comparable acquisitions on the market considered by the Directors, please see "BASIS OF THE CONSIDERATION" below in this announcement.

BASIS OF THE CONSIDERATION

As disclosed in the Announcement, the total Consideration for the Acquisition of RMB230 million was determined based on the arm's length negotiations between the Sellers and the Purchaser with reference to, among other things, the Valuation prepared by the Valuer based on the earning value method.

Based on the earning value method and the abovementioned underlying assumptions, the Valuer concluded that the Valuation was RMB231 million, which is roughly the same as the Consideration of RMB230 million for the Acquisition.

The Directors also considered and compared the P/E ratios of the Acquisition against the following acquisitions of companies engaged in the hazardous waste management industry, which operate in the same industry as the Target Company and were recently acquired by other listed companies (the "**Comparable Acquisitions**"):

Listed companies (purchaser)	**Target company (major operation location)**	**Business of target company**	**Reference date *(Note 1)***	**P/E ratio (calculated based on consideration and estimated net profit after tax of the target company at perpetuity)**
The Group	Target Company (Qinghai Province)	The Target Company is principally engaged in solid hazardous waste management business, particularly, in the collection, stabilization and disposal of solid hazardous and dangerous wastes.	30 November 2021	8.76
Company A (listed on the Shanghai Stock Exchange)	Target A (Jiangsu Province)	Target A is principally engaged in industrial waste management business, particularly in the operation of the Feng County Comprehensive Industrial Waste Management Project.	6 July 2021	7.00 *(Note 2)*
Company B (listed on the Shanghai Stock Exchange)	Target B (Zhejiang Province)	Target B is principally engaged in solid waste and hazardous waste management business, particularly in the collection and decontamination of solid and hazardous waste.	11 March 2020	6.76 *(Note 3)*
Company C (listed on the Shanghai Stock Exchange and the Stock Exchange)	Target C (Jiangsu Province)	Target C is principally engaged in industrial solid waste incineration treatment, general waste recycling and integrated utilization. Its service users cover areas such as chemical engineering, pharmaceutical, mechanical, printing and dyeing, electrical, etc.	24 December 2020	13.12
Company C	Target D (Jiangsu Province)	Target D is principally engaged industrial solid waste incineration treatment, general waste recycling and integrated utilization. Its service users cover areas such as chemical engineering, pharmaceutical, mechanical, printing and dyeing, electrical, etc.	24 December 2020	13.17

Notes:

1. Reference date refers to date of acquisition agreement or, if date of acquisition agreement is not publicly available, the date of board approval.

2. According to the relevant announcement of Company A, Target A has not yet commenced operation as at the reference date.

3. According to the relevant announcement of Company B, Company B acquired 40% of the equity interest of Target B.

The Board has considered the P/E ratios of the Comparable Acquisitions based on the consideration of the relevant acquisition and the estimated net profit after tax at perpetuity of the relevant target entity and noted that the P/E ratio of Target Company falls within the P/E reference range and is relatively lower than the average of the P/E reference range. In addition, in case the net profit after tax of the Target Company falls short of the Profit Guarantee (as defined below) of RMB45 million, the relevant compensation mechanism would further reduce the effective P/E ratio of Target Company. For further details of the Profit Guarantee and compensation mechanism, please refer to "PROFIT GUARANTEE" below in this announcement.

In addition, during the course of negotiation, the management of the Target Company had informed the Board of the delay in the completion of one the rigid landfills of the Jingze Project (the "**Delay**") and that they had taken into account of the Delay when they prepare for the Projected Income. Having also considered the terms of the Share Transfer Agreement, in particular, (i) the third tranche of the Consideration payment will be subject to, among other things, the completion of the concerned landfill; (ii) the Profit Guarantee and the compensation mechanism will be included in the Share Transfer Agreement, which in substance decreases the Consideration payable by the Group and adjusts the Consideration based on the actual performance of the Target Company for financial year ended 2021, which is considered to be commercially reasonable; (iii) the Group will obtain management control of the Target Company in order to continuously monitor the performance and operations of the Target Company and to avoid occurrence of situation similar to the Delay; and (iv) representation and guarantee from the Sellers in relation to the completion of the concerned landfill, the Board was of the view that the Consideration was suitably determined with reference to the entire equity interest of the Target Company and was therefore fair and reasonable and additional steps have been taken to protect the interest of the Company and its Shareholders when negotiating with the Sellers and determining the terms of the Share Transfer Agreement, including the Profit Guarantee.

FLUCTUATION OF THE TARGET COMPANY'S NET PROFIT

As disclosed out in the Announcement, the Target Company recorded a net loss (before and after tax) of RMB5.78 million for the financial year ended 2019 and a net profit (before and after tax) of RMB50.98 million for the financial year ended 2020.

The significant increase in net profit of the Target Company in the financial year ended 2020 was due to the facts that (i) the Target Company was under planning and construction for the financial years ended 2018 and 2019. The Target Company only started its trial operation period after it has obtained the Temporary Hazardous Waste Operation Permit in September 2019. Thus, the net profit recorded for the financial year ended 2019 represents approximately 3 months of operating data, whereas the net profit recorded for the financial year ended 2020 represents the operating data for the entire financial year; and (ii) in 2019, the Target Company has paid much effort in business development and identified certain potential customers. In 2020, it has signed contracts with potential customers and recognized the related revenue. As a result, the net profit of the Target Company in the financial year ended 2020 has significantly increased compared to which in the financial year ended 2019.

The Board confirms that no items in the net profit are outside of the Target Company's ordinary and usual course of business.

PROFIT GUARANTEE

As disclosed in the Announcement, pursuant to the Share Transfer Agreement, the Sellers irrevocably guaranteed to the Purchaser that the net profit after tax of the Target Company for each of the financial years ended 2021, 2022 and 2023 shall not be less than RMB45 million, respectively (the "**Profit Guarantee**") and if the Target Company shall fail to meet the Profit Guarantee, the shortfall shall be (i) deducted from the next tranche of the Consideration payment by the Purchaser, an indirect wholly-owned subsidiary of the Company; or (ii) made up by the Sellers directly. Where the shortfall exceeds the next tranche of the Consideration payment, the Seller shall make up the shortfall by cash (wire transfer) within 30 days of the issuance of the accountants' report for that relevant financial year.

The Profit Guarantee were determined with reference to the historical development results and expected profits of the Target Company and based on arm's length negotiations between the Sellers and the Purchaser.

The Board is of view that the Profit Guarantee can minimize the Company's risk exposure in this Acquisitions, and considered the terms of the Profit Guarantee are fair and reasonable and is in the best interests of the Shareholders.

Regarding the circumstances of the Profit Guarantee for financial year ended 2021, the Company will issue further announcement in accordance with the requirements under Rule 14.36B of the Listing Rules upon receiving the accountants' report of the Target Company for the financial year ended 2021.

INFORMATION OF THE VALUER

China Alliance is an independent asset valuation company established in the PRC on 29 June 1993 and has more than 20 branches in the PRC and Hong Kong. China Alliance has obtained the following qualifications: Asset Evaluation Qualification, Securities and Futures-related Business Assessment Qualification, Land Evaluation Qualification and Mining Rights Assessment Qualification. It provides a wide range of valuation services, but not limited to, single asset valuation, asset portfolio valuation, enterprise value valuation, other asset valuation, related consulting services, and prospecting and mining rights valuation. According to the firm profile provided by China Alliance, China Alliance was one of the earliest asset valuation firms in the PRC, and the first asset valuation firm in Beijing qualified to provide securities and futures related valuation services. China Alliance currently has over 200 certified public asset valuers and was ranked fifth and ninth among asset valuation firms in Beijing and PRC, respectively, in terms of revenue generated in 2019. China Alliance is a professional asset valuation service firm shortlisted in the database of intermediary agency candidate of state-owned enterprises under State-owned Assets Supervision and Administration Commission of the State Council.

The Group did background search of China Alliance in National Enterprise Credit Information Publicity System and made all reasonable enquiries as to the independence of China Alliance before engagement. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, China Alliance is an independent third party of the Group, the Sellers, the Target Company and their respective directors, employees and associates.

Based on background search and the Valuer's market position and reputation, the Board believes that China Alliance is an independent and competent valuer to conduct the Valuation.

OTHER INFORMATION

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the past twelve months, there has been, no material loan arrangement between (a) the Sellers, any of its directors and legal representatives and/or any ultimate beneficial owners of the Sellers who can exert influence on the Acquisition; and (b) the Company, any connected person at the Company's level and/or any connected person of the Company's subsidiaries involved in the transaction.

Save as disclosed in this announcement, all other information set out in the Announcement remains unchanged.

By order of the Board
China Boqi Environmental (Holding) Co., Ltd.
Zeng Zhijun
Chairman, Executive Director and Chief Executive Officer

Beijing, the PRC, 28 February 2022

As at the date of this announcement, the executive directors are Mr. Zeng Zhijun and Mr. Cheng Liquan Richard; the non-executive directors are Mr. Zheng Tony Tuo, Mr. Zhu Weihang and Mr. Chen Xue; and the independent non-executive directors are Mr. Liu Genyu, Dr. Xie Guozhong and Mr. Lu Zhifang.

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN HAIXI JINGZE ENVIRONMENTAL PROTECTION TECHNOLOGY CO., LTD.

To the Directors of China Boqi Environmental (Holding) Co., Ltd.

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 25 October 2021 prepared by China Alliance Appraisal Co., Ltd. ("**China Alliance**" or the "**Valuer**") in respect of Haixi Jingze Environmental Protection Technology Co., Ltd. (the "**Target Company**") as at 30 June 2021 is based. The valuation is set out in the announcement of China Boqi Environmental (Holding) Co., Ltd. (the "**Company**") dated 30 November 2021 and 28 February 2022, respectively in connection with the acquisition of the Target Company. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 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 solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Valuation Methodology and Specific Key Assumptions" of the announcement dated 28 February 2022.

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 Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our 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*, 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 on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with 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, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. 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.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young
Certified Public Accountants
Hong Kong
27/F, One Taikoo Place 979 King's Road Quarry Bay, Hong Kong
28 February 2022

APPENDIX II – LETTER FROM THE BOARD

28 February 2022

Listing Division
The Stock Exchange of Hong Kong Limited
12/F Two Exchange Square
8 Connaught Place, Central Hong Kong

Dear Sirs,

We refer to the announcement of the Company dated 30 November 2021 in relation to the Acquisition of the entire equity interest of the Target Company (the "**Announcement**"). Capitalized terms used in this letter shall have the same meanings as those defined in the Announcement unless stated otherwise.

Reference is made to the valuation report (the "**Valuation Report**") dated 25 October 2021 issued by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) (the "**Valuer**"), an independent valuer, in relation to the valuation of the entire interest in the Target Company as at 30 June 2021 (the "**Valuation**"). As the Valuation adopted, among others, the earning value method which involves the use of discounted cash flows, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer about different aspects including the bases and assumption based on which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report from the auditors of the Company, Ernst & Young, regarding whether the discounted future estimated cash flows, so far as the calculation are concerned, were properly complied, in all material respects, in accordance with the assumption as set out in the Valuation Report.

Pursuant to the requirement of Rule 14.62(3) of the Listing Rules, the Board confirms that the Valuation prepared by the Valuer has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board of Directors of
China Boqi Environmental (Holding) Co., Ltd.
Zeng Zhijun
Chairman, Executive Director and Chief Executive Officer