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Application Proof of



## **CANVEST ENVIRONMENTAL PROTECTION GROUP COMPANY LIMITED**

**粵豐環保電力有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(the “Company”)**

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**CANVEST ENVIRONMENTAL PROTECTION GROUP  
COMPANY LIMITED**

**粵豐環保電力有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**[Redacted]**

**Nominal value : HK\$0.01 per Share**  
**[Redacted]**

**Sole Sponsor [Redacted]**

**CMS  招商证券**

**China Merchants Securities (HK) Co., Limited**

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**[Redacted]**

**[Redacted]**

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

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## SUMMARY

This summary aims to give you an overview of the information contained in this [Redacted] and should be read in conjunction with the full text of this [Redacted]. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole [Redacted], including our financial statements and the accompanying notes, before you decide to invest in the [Redacted].

There are risks associated with any investment. Some of the particular risks of investing in the [Redacted] are set forth in the section headed “Risk factors” on pages 32 to 54 in this [Redacted]. You should read that section carefully before you decide to invest in the [Redacted].

### OVERVIEW

We are a leading pure play waste-to-energy provider focused solely on the development, management and operation of WTE plants. According to the Euromonitor Report, in terms of daily MSW processing capacity for commercial operating WTE plants in 2013: (i) we were the second largest WTE provider in Guangdong Province and the 11th largest WTE provider in the PRC with a market share of approximately 13.0% and 2.0%, respectively; and (ii) among all non-State-owned background enterprises, we were the largest WTE provider in Guangdong Province and the fourth largest WTE provider in the PRC.

The following table provides a brief overview of our WTE plants:

	<b>Eco-Tech WTE Plant</b> <i>(Note 1)</i>	<b>Kewei WTE Plant</b>	<b>China Scivest WTE Plant</b>	<b>Zhanjiang WTE Plant</b>
<b>Installed daily MSW processing capacity</b>	1,200 tonnes (before the Technological Upgrade); 1,800 tonnes (after the Technological Upgrade)	1,800 tonnes	1,800 tonnes	Designed to be 1,000 tonnes for phase one and 500 tonnes for phase two
<b>Installed power generation capacity</b>	36 MW	30 MW	42 MW	30 MW (designed capacity)
<b>Ownership of the respective project companies</b>	Wholly owned subsidiary	Wholly owned subsidiary	Wholly owned subsidiary	55%-owned subsidiary
<b>Concession period</b>	Not applicable	Not applicable	24 years up to 30 November 2028	28 years up to 17 April 2041
<b>Business model</b>	BOO	BOO	BOT	BOT
<b>Status</b>	Undergoing Technological Upgrade <i>(Note 2)</i>	Currently in commercial operation	Currently in commercial operation	Under development

*Notes:*

1. We established Eco-Tech in June 2003 and disposed 40% of our interest in Eco-Tech in August 2007. We acquired the controlling interest in Eco-Tech on 17 October 2011. For further details, please refer to the section headed “History and development — Corporate history of our principal subsidiaries — Eco-Tech” on pages 93 to 96 in this [Redacted].
2. Operation of our Eco-Tech WTE Plant is currently suspended for its Technological Upgrade and is expected to resume trial operation and commercial operation by the third quarter of 2015 and the second quarter of 2016, respectively. For further details of the Technological Upgrade of our Eco-Tech WTE Plant, please refer to the section headed “Business — Our projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” on pages 136 to 141 in this [Redacted].



## **SUMMARY**

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### **OUR BUSINESS MODEL**

Our WTE business operations include both BOO projects and BOT projects. Currently our Eco-Tech WTE Plant and Kewei WTE Plant are BOO projects, whereas our China Scivest WTE Plant and our Zhanjiang WTE Plant (which is currently under development) are BOT projects.

#### **BOO projects**

The main characteristics of our BOO projects may include: (i) project companies own and operate their facilities and assets with no obligation to transfer their ownership of the relevant WTE plants and the ancillary production facilities to any specified parties at any specified time; (ii) there is no undertaking from the government in favour of any of the project companies to guarantee any minimum supply of MSW, and the respective BOO project companies liaise and enter into waste supply agreements with various MSW suppliers directly; and (iii) the operational rights of the WTE plants were granted by way of the government’s approvals of their applications for the operation of the respective WTE plants.

#### **BOT projects**

WTE plants which are developed and operated on a concession basis are currently the mainstream model in the WTE industry in the PRC. When compared to BOO projects, the key characteristics of BOT projects may include: (i) the development and operational rights of the plants under the BOT projects were granted through concessions from government authorities to project companies; (ii) upon expiry of the respective concession periods, project companies will be required to transfer the ownership of their respective WTE plants and the ancillary facilities to the relevant government authority without compensation; and (iii) the relevant government authority has undertaken to the respective project companies to guarantee a minimum supply volume of MSW during the concession period and compensate the respective project companies if there is any shortfall.

#### **Accounting treatment**

Our BOO project companies only recognise revenue when they generate waste treatment fees and on-grid tariffs, whereas our BOT project companies may further recognise construction revenue and cost relating to service concession arrangement during the construction phase and finance income during the concession period. For further details, please refer to the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications” on pages 219 to 220 in this [Redacted].

#### **Source of revenue**

##### *Power sales*

Our WTE plants incinerate MSW to generate power, which is then transmitted to the local power grid companies and charged at tariff levels which are determined by the National Development and Reform Committee and the local price bureau. The PRC government has established a protective purchasing policy for power output from WTE plants irrespective of their business model, in particular, power grid companies must enter into grid connection agreements with WTE plants which generate power by utilising renewable energy resources and must purchase the full amount of the on-grid power of the WTE plants within the coverage of their grids, provided that certain requirements are met. All of our project companies enjoy or are entitled to enjoy mandatory power purchase and grid connection privileges.

## SUMMARY

For our WTE plants, on-grid tariffs are regulated according to the relevant laws and regulations. During the Track Record Period and up to the Latest Practicable Date, the power generated from our WTE plants were sold to the Dongguan Power Supply Bureau as the single power grid company customer. During the Track Record Period, the on-grid tariffs charged by our Eco-Tech WTE Plant were RMB0.58 per kWh (VAT inclusive) up until its suspension of operations due to its Technological Upgrade in April 2014. As at the Latest Practicable Date, the on-grid tariffs charged by each of our Kewei WTE Plant and China Scivest WTE Plant were RMB0.66 per kWh (VAT inclusive) for the first 280 kWh of power generated by every tonne of MSW processed and RMB0.512 per kWh (VAT inclusive) for any additional power output.

### *Waste treatment*

We enter into waste treatment contracts with MSW suppliers which are principally local government entities. Under these contracts, our suppliers commit to supply and deliver their respective contracted amounts of MSW to our WTE plants for processing. As at the Latest Practicable Date, we had 19 waste treatment contracts with MSW suppliers which provided a total contracted daily MSW supply volume of 3,248 tonnes. In Dongguan, the unit price for waste treatment fees (RMB per tonne) applicable to WTE plants is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time. As at the Latest Practicable Date, the unit price of the waste treatment fees applicable to our WTE plants in Dongguan was set at a uniform rate of RMB110.0 per tonne.

### *Contribution from Eco-Tech, Kewei and China Scivest*

The following table sets out the revenue and gross profit contribution from Eco-Tech (which operated our Eco-Tech WTE Plant), Kewei (which operated our Kewei WTE Plant) and China Scivest (which operated our China Scivest WTE Plant) during the Track Record Period:

	Year ended 31 December						Six months ended 30 June				
	2011		2012		2013		2013		2014		
	<i>Eco-Tech</i>	<i>Kewei</i>	<i>Eco-Tech</i>	<i>Kewei</i>	<i>Eco-Tech</i>	<i>Kewei</i>	<i>Eco-Tech</i>	<i>Kewei</i>	<i>Eco-Tech</i>	<i>Kewei</i>	<i>China Scivest</i>
	<i>(note 1)</i>						<i>(unaudited)</i>				<i>(note 2)</i>
<b>Revenue</b>											
- Power sales (HK\$'000)	18,560	88,465	119,307	146,100	120,833	140,904	61,268	71,882	36,243	70,189	86,348
- Waste treatment fees (HK\$'000)	7,697	39,748	47,367	74,360	50,954	77,482	23,473	37,886	14,518	40,507	50,610
Total (HK\$'000)	26,257	128,213	166,674	220,460	171,787	218,386	84,741	109,768	50,761	110,696	136,958
representing approx. % of our Group's total revenue <i>(note 3)</i>	17.0%	83.0%	43.1%	56.9%	44.0%	56.0%	43.6%	56.4%	16.2%	35.3%	43.7%
<b>Gross profit (HK\$'000)</b>	5,673	89,323	38,532	168,235	42,904	159,732	24,979	83,819	4,225	75,476	82,955
representing approx. % of our Group's gross profit <i>(note 3)</i>	6.0%	94.0%	18.6%	81.4%	21.2%	78.8%	23.0%	77.0%	2.6%	45.7%	50.2%

### *Notes:*

- We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group's operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.
- China Scivest was acquired and its results was accounted for as part of the Group's results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group's operations.
- In respect of the six months ended 30 June 2014, the remaining revenue and gross profit were attributable to construction revenue and finance income relating to service concession arrangement from the Zhanjiang Project.

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**SUMMARY**

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**Key operational data**

The following table sets out certain operating data of our Eco-Tech WTE Plant (before the Technological Upgrade), Kewei WTE Plant and China Scivest WTE Plant during the Track Record Period:

	Year ended 31 December			Six months ended
	2011	2012	2013	30 June 2014
<b>Eco-Tech WTE Plant*</b>				
Sales to generation ratio	82.3%	80.2%	82.8%	84.2%
Power generation capacity factor	70.6%	76.8%	75.9%	67.2%
Received MSW	70,271.5	429,796.8	399,067.6	104,422.5
Waste treatment utilisation rate	95.3%	95.5%	90.1%	75.0%
<b>Kewei WTE Plant</b>				
Sales to generation ratio	89.2%	89.1%	88.3%	87.0%
Power generation capacity factor	52.7%	91.0%	90.8%	91.9%
Received MSW	377,114.5	676,153.2	614,712.7	290,810.6
Waste treatment utilisation rate	51.9%	97.4%	89.3%	85.2%
<b>China Scivest WTE Plant**</b>				
Sales to generation ratio	N/A	N/A	N/A	90.7%
Power generation capacity factor	N/A	N/A	N/A	78.1%
Received MSW	N/A	N/A	N/A	363,374.3
Waste treatment utilisation rate	N/A	N/A	N/A	101.5%

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group's operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

\*\* China Scivest was acquired and its results was accounted for as part of the Group's results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group's operations.

Please refer to the section headed “Business — Our projects” on pages 131 to 134 in this [Redacted] for the detailed definition of sales to generation ratio, power generation capacity factor and waste treatment utilisation rate.

**Sales to generation ratio:** The sales to generation ratio of our Eco-Tech WTE Plant were lower than those of our Kewei WTE Plant and China Scivest WTE Plant because our Eco-Tech WTE Plant adopted the fluidised bed technology, which consumes more power during its operation than that of moving grate technology adopted by our Kewei WTE Plant and China Scivest WTE Plant. Our Eco-Tech WTE Plant is expected to have a higher sales to generation ratio after re-commencing trial operation upon the completion of its Technological Upgrade.

**Power generation capacity factor:** During the Track Record Period, the power generation capacity factor of our Eco-Tech WTE Plant was lower than that of our Kewei WTE Plant because it adopted the fluidised bed technology and as a result operated at a comparatively lower efficiency. Our Eco-Tech WTE Plant is expected to have a higher power generation capacity factor after completion of its Technological Upgrade. Our China Scivest WTE Plant had a lower power generation capacity factor than our Kewei WTE Plant due to its larger installed power generation capacity (42 MW compared to 30 MW for our Kewei WTE Plant), while both plants had the same installed daily MSW processing capacity of 1,800 tonnes.

## **SUMMARY**

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**Waste treatment utilisation rate:** Waste treatment utilisation rates of our Eco-Tech WTE Plant and Kewei WTE Plant decreased from 2012 to 2013 because our MSW suppliers began to supply us with MSW which had a relatively higher heat value. The utilisation rate of our China Scivest WTE Plant exceeded 100% for the six months ended 30 June 2014 because the incinerators were able to process a volume of MSW which was greater than the designed processing capacity of 1,800 tonnes per day due to the relatively lower actual heat value of the MSW supplied which allowed more MSW to be processed to produce a similar level of power output.

Please refer to the section headed “Business — Our projects — Power generation and sales” on pages 131 to 132 in this [Redacted] for further details.

### **RECENT DEVELOPMENTS**

#### *Technological Upgrade of our Eco-Tech WTE Plant*

In order to increase its operational efficiency and to enhance its profit margin, and in anticipation of new and more stringent environmental standards that may impose on the WTE plants in the future, we have launched the Technological Upgrade of our Eco-Tech WTE Plant to replace the fluidised bed incinerators with moving grate incinerators and to upgrade certain other facilities at our Eco-Tech WTE Plant. The new moving grate incinerators will not use coal as an auxiliary fuel in the incineration process and will require a fewer number of staff to operate and thus will have lower operating cost than the pre-existing fluidised bed incinerators. The initial demolition work for the Technological Upgrade has started in April 2014 and the plant is expected to commence trial operation by the third quarter of 2015 and commercial operation by the second quarter of 2016. The business operations of our Eco-Tech WTE Plant have been and will continue to be suspended before the trial operation commences. We have mainly relied on our Kewei WTE Plant and China Scivest WTE Plant (which was acquired in January 2014) for revenue and cash generation since April 2014. As to the financing arrangement, our Directors currently estimate that RMB300 million, or approximately 66% of the capital investment, will be funded by bank loans. Eco-Tech has obtained a revolving loan facility with a credit limit of RMB300 million for the period from 18 June 2014 to 17 June 2022. Up to the Latest Practicable Date, we have drawn down RMB28 million from such loan facility, which is to be repaid by July 2017. The substantial loss of revenue combined with on-going costs such as financing costs and labour costs for retaining staff during the Technological Upgrade for our Eco-Tech WTE Plant may materially and adversely affect our business, financial conditions or results of operations. Based on the prevailing applicable on-grid tariffs and waste treatment fees, it is currently estimated that the Technological Upgrade will lead to a loss of revenue of approximately RMB101.5 million and RMB94.6 million to our Group for the years ending 31 December 2014 and 2015, respectively. Please see the section headed “Risk factors — Risks relating to our business and industry — Our business and results of operations may be adversely affected during or after the Technological Upgrade of our Eco-Tech WTE Plant, or in case we fail to complete the Technological Upgrade — Loss of revenue from suspending operations” on page 32 in this [Redacted]. For further details of the Technological Upgrade of Eco-Tech, please refer to the section headed “Business — Our Projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” on pages 136 to 141 in this [Redacted].

#### *Status of Zhanjiang Project*

In April 2013, we entered into the Zhanjiang Concession Agreement with the Zhanjiang DRB under which Zhanjiang Yuefeng, our 55%-owned subsidiary, undertook to construct the Zhanjiang WTE Plant in two phases. To finance the project, Zhanjiang Yuefeng obtained a loan facility of up to RMB350 million pursuant to a loan agreement entered into with a commercial bank on 18 August 2014.

As at the Latest Practicable Date, we have commenced preparatory construction work such as connecting the site’s access to water, electricity and roads and levelling of the site (三通一平). We have not obtained the construction work planning permit, construction work commencement permit and land use right certificate up to the Latest Practicable Date; therefore we have not yet obtained the relevant permits required to commence construction of the plant’s building facilities. If we cannot

## **SUMMARY**

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obtain the land use right certificate by the end of 2014, our Directors foresee that we may not be able to complete the construction work of phase one by the milestone date as stipulated under the Zhanjiang Concession Agreement. However, we have duly obtained a written notice issued by the Zhanjiang DRB dated 30 July 2014 whereby the Zhanjiang DRB has agreed to defer the milestone date for commencing construction work to a date on which Zhanjiang Yuefeng receives the construction work commencement permit and to defer all subsequent milestone dates accordingly without penalty. Our Directors expect Zhanjiang Yuefeng to obtain the land use right certificate, construction work planning permit and construction work commencement permit in the fourth quarter of 2014.

[Redacted]

### *No material adverse change*

For the one month ended 31 July 2014, the revenue decreased while gross profit margin increased when compared with the average of that of the six months ended 30 June 2014 as a result of suspension of operation of our Eco-Tech WTE Plant for its Technological Upgrade. As at the close of business on 31 July 2014, being the latest practicable date for the purpose of the indebtedness statement, we had aggregated unutilised uncommitted banking facilities of approximately HK\$341.8 million which were unutilised.

Save and except for matters disclosed above, our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this [Redacted]. As far as we are aware, there was no material change in the general market conditions in the PRC WTE industry that had affected or would affect our business operations or financial conditions materially and adversely.

### **OUR COMPETITIVE STRENGTHS**

We believe we have the following competitive strengths:

- We have a proven track record for growing organically and through acquisitions
- Our WTE plants benefit from favourable renewable energy policies of the PRC government
- We are strategically located in Guangdong Province
- We have an experienced and stable management team with strategic vision supported by professional and dedicated core technical staff
- We have a distinct advantage over competitors utilising fluidised bed technology
- Our award-winning WTE plants signified our strength and standard of operations

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## SUMMARY

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### OUR BUSINESS STRATEGIES

Our key business strategies are to:

- Continue to seek new opportunities to expand our capacity through either developing our own greenfield projects or pursuing acquisitions
- Continue to improve our operational efficiency and financial performance
- Expand our business by offering consultancy services to other WTE providers
- Continue to strengthen our talent base through enhanced recruiting and training programmes

### OUR CUSTOMERS AND SUPPLIERS

During the Track Record Period, our largest contributor of our Group’s revenue was the Dongguan Power Supply Bureau, which contributed approximately 69.3%, 68.6%, 67.1% and 61.5% of our total revenue for the three years ended 31 December 2013 and the six months ended 30 June 2014, respectively. Therefore, we are subject to a risk of reliance on a single largest customer, please refer to the section headed “Risk factors — Risks relating to our business and industry — We are subject to heavy reliance on a customer for power sales” on page 35 in this [Redacted] for details.

Our principal source of raw materials for the operation of our WTE plants is MSW, which we receive pursuant to waste treatment contracts from our various MSW suppliers, which are principally local governmental entities. We do not have to pay for these raw materials, but rather, we receive waste treatment fees for processing them. Our MSW suppliers are treated as our customers from whom we receive waste treatment fees. During the Track Record Period, our other major raw material was coal as our Eco-Tech WTE Plant historically required coal as its auxiliary fuel before its Technological Upgrade. During the Track Record Period, coal procurement represented the largest portion of the total purchase of our Group. Upon completion of the Technological Upgrade of our Eco-Tech WTE Plant, we will no longer use coal as auxiliary fuel for any of our existing WTE plants.

### SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

#### Key Income Statement Information

The following table summarises the consolidated income statements data from the financial information during the Track Record Period, details of which are set out in the Accountant’s Report of our Group in Appendix I on pages I-4 to I-14 to this [Redacted].

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(unaudited)</i>				
<b>Revenue</b>	154,470	387,134	390,173	194,509	313,270
Cost of sales	<u>(59,474)</u>	<u>(180,367)</u>	<u>(187,537)</u>	<u>(85,711)</u>	<u>(148,039)</u>
<b>Gross profit</b>	<u>94,996</u>	<u>206,767</u>	<u>202,636</u>	<u>108,798</u>	<u>165,231</u>
<b>Operating profit</b>	<u>78,687</u>	<u>184,510</u>	<u>174,211</u>	<u>96,990</u>	<u>161,263</u>
<b>Profit for the year/period</b>	<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>

## SUMMARY

	Year ended 31 December			Six months ended 30 June	
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2013 <i>HK\$'000</i> <i>(unaudited)</i>	2014 <i>HK\$'000</i>
<b>Attributable to:</b>					
Equity holders of the Company	38,743	126,540	130,969	73,477	115,890
Non-controlling interests	3,780	—	—	—	875
	<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>

### Key Balance Sheet Information

The following table sets forth a summary of the consolidated balance sheet information of our Group as at the relevant balance sheet dates indicated:

	As at 31 December			As at 30 June
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>ASSETS</b>				
Non-current assets	883,686	849,418	851,322	1,839,067
Current assets	130,225	139,282	389,276	632,513
<b>Total assets</b>	<u>1,013,911</u>	<u>988,700</u>	<u>1,240,598</u>	<u>2,471,580</u>
<b>EQUITY</b>				
Equity attributable to equity holders of the Company	102,399	228,853	675,947	1,127,893
Non-controlling interests	—	—	85,853	85,906
<b>Total equity</b>	<u>102,399</u>	<u>228,853</u>	<u>761,800</u>	<u>1,213,799</u>
<b>LIABILITIES</b>				
Non-current liabilities	425,062	367,066	324,464	938,482
Current liabilities	486,450	392,781	154,334	319,299
<b>Total liabilities</b>	<u>911,512</u>	<u>759,847</u>	<u>478,798</u>	<u>1,257,781</u>
<b>Total equity and liabilities</b>	<u>1,013,911</u>	<u>988,700</u>	<u>1,240,598</u>	<u>2,471,580</u>
<b>Net current (liabilities)/assets</b>	<u>(356,225)</u>	<u>(253,499)</u>	<u>234,942</u>	<u>313,214</u>

We recorded net current liabilities as at 31 December 2011 and 2012, respectively, which mainly reflected (i) the advances paid by Mr. KM Lai primarily for the acquisition of our Eco-Tech WTE

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**SUMMARY**

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Plant; (ii) the current portion of our bank borrowings principally for our capital expenditure; and (iii) certain term loans due for repayment after one year which contain a repayment on demand provision. The change from net current liabilities to net current assets in 2013 was primarily due to net profit generated for the year, deemed capital contribution from Mr. KM Lai by waiving the amount due to Mr. KM Lai of HK\$297.4 million, and the capital injection from High Point of HK\$84.5 million to Zhanjiang Yuefeng in 2013. Due to the capital intensive nature of WTE projects we develop, we have principally relied on borrowings to fund our capital requirements, and we expect to continue to do so in the foreseeable future. We cannot assure you that we will not have net current liabilities position in the future, please refer to the section headed “Risk factors — Risks relating to our business and industry — We have had net current liabilities position at times during the Track Record Period” on page 48 in this [Redacted].

**Key Cash Flow Statement Information**

The table below sets out a summary of our net cash flow for the periods indicated during the Track Record Period:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Net cash generated from operating activities	76,213	204,051	220,726	86,075	149,774
Net cash used in investing activities	(95,794)	(49,695)	(209,097)	(178,041)	(93,838)
Net cash generated from/(used in) financing activities	37,615	(165,984)	(7,958)	167,121	289,356

**Key Financial Ratios**

The following table sets forth our key financial ratios for the year/period, or as at each of the dates indicated.

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
Gross profit margin	61.5%	53.4%	51.9%	55.9%	52.7%
Net profit margin	27.5%	32.7%	33.6%	37.8%	37.3%
Return on equity	37.8%	55.3%	19.4%	N/A	20.5%
Return on total assets	4.2%	12.8%	10.6%	N/A	9.4%

	<b>As at 31 December</b>			<b>As at 30 June 2014</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	
Current ratio	0.3	0.4	2.5	2.0
Gearing ratio	483.3%	206.1%	50.1%	84.1%
Net debt to equity ratio	428.4%	186.6%	43.6%	51.7%



## **SUMMARY**

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The following provides an analysis to some of the material fluctuations to our key financial ratios during the Track Record Period. For further details, please refer to the section headed “Financial information — Key financial ratios” starting on page 262 in this [Redacted].

- Our gross profit margin decreased from 2011 to 2012, which was mainly attributable to the increase in the revenue contribution from Eco-Tech. The gross profit margin of Eco-Tech was lower than our other WTE plants as it incurred higher operation cost due to the use of coal as its auxiliary fuel and requiring more manpower to operate.
- Our net profit margin improved from 2011 to 2012, which was primarily attributable to (i) an increase in waste treatment utilisation rate of our Kewei WTE Plant in 2012; and (ii) lower effective tax rate in 2012 when compared with 2011, which was partially net off by a decrease in gross profit margin as discussed above.
- Our return on equity and return on total assets increased from 2011 to 2012, which was mainly attributable to the increase in the net profit in 2012 primarily due to the full year operating result being consolidated after the acquisition of Eco-Tech in October 2011 and the increased waste treatment utilisation rate of the Kewei WTE Plant in 2012. Our return on equity and return on total assets decreased from 2012 to 2013 mainly due to the increase in equity resulting from deemed capital contribution from Mr. KM Lai through the waiver of the amount due to Mr. KM Lai and the increase in total asset, respectively.
- The substantial improvement in our current ratio from 2012 to 2013 was primarily due to the net profit generated for the year ended 31 December 2013, deemed capital contribution from Mr. KM Lai by waiving the amount due to him of HK\$297.4 million, and the capital injection from High Point of HK\$84.5 million to Zhanjiang Yuefeng in 2013.
- Our gearing ratio and net debt to equity ratio decreased from 2012 to 2013, mainly due to our increase in total equity as a result of (i) the deemed capital contribution from Mr. KM Lai through the waiver of the amount of HK\$297.4 million due to Mr. KM Lai; and (ii) repayment of bank borrowings from our cash generated from our operations in 2013. Our gearing ratio and net debt to equity ratio increased from 31 December 2013 to 30 June 2014, mainly due to the increase in bank borrowings at 30 June 2014 due to the consolidation of our China Scivest, which is partially offset against the capital contribution from the funds received from the [Redacted].

[Redacted]

## **FUTURE PLANS AND [REDACTED]**

[Redacted]

## **SUMMARY**

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We intend to use the [Redacted] of the [Redacted] for the following purposes:

- approximately [Redacted], or approximately [Redacted], of our [Redacted] will be used to expand our WTE business by developing greenfield projects or acquiring existing WTE plants. For greenfield projects, we give priority to regions which fulfil certain criteria such as: (i) the absence of well-established WTE plants or fierce competition for WTE business in those regions; (ii) current or robust demand for waste treatment services in those regions; and (iii) the daily MSW processing capacity of new projects would be at least 1,000 tonnes. For acquisitions, we plan to acquire WTE plants that are currently adopting fluidised bed incineration technology, being poorly managed, lacking technical expertise and/or having low operational efficiency. After we acquire such WTE plants, we will aim to upgrade them by leveraging on our technical know-how and our management experience, and operate them with the same high operational standards as our existing plants. As at the Latest Practicable Date, we had not yet identified or committed to any greenfield projects or acquisition targets for such use of [Redacted] from the [Redacted];
- approximately [Redacted], or approximately [Redacted], of our [Redacted] will be applied for the development of phase two of Zhanjiang WTE Plant which is expected to be commenced after the trial operation of phase one of Zhanjiang WTE Plant; and
- the remaining amount of approximately not more than [Redacted], or approximately [Redacted], of our [Redacted] will be used to provide funding for our working capital and other general corporate purposes.

For more details, please refer to the section headed “Future plans and [Redacted]” on pages 283 to 284 in this [Redacted].

### **HISTORICAL NON-COMPLIANCE INCIDENTS**

During the Track Record Period and up to the Latest Practicable Date, we have failed to comply with certain laws, rules and regulations applicable to us. These include, among others, unauthorised power sales, failure to obtain certain licenses and permits and incidents of non-compliance with the Predecessor Companies Ordinance and Companies Ordinance. Please refer to the section headed “Business — Legal compliance and proceedings — Historical non-compliance incidents” on pages 174 to 186 in this [Redacted] for further details.

### **DEFECT WITH RESPECT TO OUR CHINA SCIVEST WTE PLANT**

The Dongguan Municipal Administration, being the other party of the China Scivest Concession Agreement, shall assist China Scivest and facilitate the obtaining of the construction related licenses and permits for the China Scivest WTE Plants. As at the Latest Practicable Date, the China Scivest WTE Plant has not yet obtained the construction work commencement permit (建築工程施工許可證), has not carried out the construction completion inspection and has not obtained the construction completion inspection acceptance registration certificate (竣工驗收備案証書). As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the maximum penalty is a total fine of 6% of the construction costs plus RMB500,000 (i.e. RMB12.7 million in total). In addition, our PRC Legal Advisers consider that there might be a risk that our China Scivest WTE Plant might be ordered to suspend its operations. We are now cooperating with the Dongguan Municipal Administration to retrospectively obtain the construction related licenses and permits for the China Scivest WTE Plant. As advised by our PRC Legal Advisers, based on certain confirmations and certificates obtained and an interview with a senior officer of the Dongguan Municipal People’s Government, there should be no material legal impediment to obtain the construction related licenses and permits (or their equivalent), our China Scivest WTE Plant is entitled to continue to use the relevant land and buildings, and the risk that our Group would be penalised by any government authorities with respect to the defects in relation to construction related licenses and permits is low. For further details, please refer to the section headed “Business — Properties” on pages 169 to 172 in this [Redacted].

## **SUMMARY**

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### **SHAREHOLDERS’ INFORMATION**

Our Controlling Shareholders are Mr. KM Lai, Ms. Loretta Lee, VISTA Co, Best Approach and Century Rise. Immediately after the completion of the [Redacted] (without taking into account any Shares which may be issued upon exercise of any options that may be granted pursuant to exercise of the [Redacted]), our Controlling Shareholders will control approximately 65.1% of our issued share capital.

We have introduced three [Redacted], namely AEP Green Power, Chatsworth and Wise Power. These investors collectively will own approximately 9.92% of our issued and outstanding share capital immediately upon completion of the [Redacted] (assuming no exercise of the [Redacted] or any option which may be granted under the Share Option Scheme) and their Shares are subject to a six-month lock-up period.

### **DIVIDEND POLICY**

Our Company has not declared or paid any dividend since the date of incorporation up to the Latest Practicable Date. Eco-Tech, a subsidiary of our Company declared and paid a dividend of approximately HK\$39.5 million to its then non-controlling shareholders for the year ended 31 December 2011.

Our Group currently does not have a fixed dividend policy and the declaration, payment and amount of any future dividends will be subject to our discretion. The declaration, payment, any future dividends (including the amount) will depend on our financial condition, results of operation, level of cash, statutory and regulatory restrictions in relation thereto, future prospects, and other factors that our Directors may consider relevant. In addition, the determination to pay dividends will be made at the discretion of the Board. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

### **RISK FACTORS**

Our business is subject to a number of risks, including but not limited to risks relating to our business and industry, risk relating to the PRC and risks relating to the [Redacted]. You should read the entire section headed “Risk factors” on pages 32 to 54 in this [Redacted] carefully. Some of the major risks we face include:

- Our business and results of operations may be adversely affected during or after the Technological Upgrade of our Eco-Tech WTE Plant, or in case we fail to complete the Technological Upgrade
- Our business may be adversely affected if any of the current favourable regulatory policies for the WTE industry in the PRC changes or is discontinued
- We are subject to heavy reliance on a customer for power sales
- We may fail to secure and execute new WTE projects or integrate future acquired or newly developed businesses into our existing operations
- Our BOT projects are subject to stringent contractual obligations and any failure to adhere to the concession terms may result in adverse effects on our business
- Our business and operations are capital intensive and our failure to raise capital could adversely affect our results of operations and financial condition

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## DEFINITIONS

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*In this [Redacted], the following expressions shall have the meanings set out below unless the context requires otherwise.*

“AEP Green Power”	AEP Green Power, Limited, a private company limited by shares incorporated under the laws of the Republic of Mauritius with limited liability and is an investment subsidiary of Asia Environmental Partners, L.P. and its parallel fund and is a [Redacted]
	[Redacted]
“Ample Forest”	Ample Forest Limited (豐森有限公司), a company incorporated under the laws of BVI on 21 June 2011 with limited liability and currently an indirect wholly owned subsidiary of our Company
“Anabell”	Anabell Hong Kong Limited (安貝爾香港有限公司), a company incorporated under the laws of Hong Kong on 9 November 2006 with limited liability and currently an indirect wholly owned subsidiary of our Company
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on [●] 2014 which will be effective upon the [Redacted], and as amended from time to time, a summary of which is contained in Appendix V to this [Redacted]
“associate(s)”	has the meaning ascribed thereto in the [Redacted]
“Best Approach”	Best Approach Developments Limited (臻達發展有限公司), a company incorporated under the laws of BVI on 2 January 2014 with limited liability and a Controlling Shareholder of our Company
“Board” or “Board of Directors”	the board of Directors
“Business Day” or “business day”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

## DEFINITIONS

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“ <b>Canvest Consultancy</b> ”	Dongguan Canvest Enterprise Consultancy and Management Company Limited (東莞市粵豐企業諮詢管理有限公司), a company established under the laws of the PRC with limited liability on 10 April 2014 and an indirect wholly owned subsidiary of our Company
“ <b>Canvest Environmental Investments</b> ”	Guangdong Canvest Environmental Protection Investments Company Limited (廣東粵豐環保投資有限公司), a company established under the laws of the PRC with limited liability on 8 December 2006 and is a subsidiary of Canvest Investments
“ <b>Canvest Group Investments</b> ”	Canvest Group Investments Limited (粵豐集團投資有限公司), a company incorporated under the laws of Hong Kong on 7 May 2012 with limited liability and a wholly-owned subsidiary of our Company
“ <b>Canvest Investments</b> ”	Dongguan Canvest Industrial Investments Limited (東莞市粵豐實業投資有限公司) (now known as Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司), a limited liability company established in the PRC on 27 November 2002 and is currently wholly owned by Mr. Guo Huiqiang, a cousin of Mr. CT Lai and Mr. KM Lai

[Redacted]

## DEFINITIONS

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“Century Rise”	Century Rise Development Limited (誠朗發展有限公司), a company incorporated under the laws of BVI on 6 January 2012 with limited liability and a Controlling Shareholder of our Company
“Chatsworth”	Chatsworth Asset Holding Ltd, a company incorporated under the laws of the British Virgin Islands with limited liability and is a wholly owned subsidiary of RRJ Capital Master Fund II, L.P., and is a [Redacted]
“China Green Power”	China Green Power Holdings Limited (中國綠色能源控股有限公司) (previously known as Honour China Holdings Limited), a company incorporated under the laws of Hong Kong on 27 May 2004 with limited liability and currently an indirect wholly owned subsidiary of our Company
“China Sciences”	China Sciences Group (Holding) Corporation (中科實業集團(控股)公司) (now known as China Sciences Group (中科實業集團(控股)有限公司), a limited liability company), an Independent Third Party of the Company
“China Scivest”	Dongguan China Scivest Environmental Power Company Limited (東莞中科環保電力有限公司), a company established under the laws of the PRC with limited liability on 5 November 2004 and currently an indirect wholly owned subsidiary of our Company
“China Scivest Cayman”	China Scivest (Cayman) Holdings Limited, an exempted company incorporated in the Cayman Islands on 15 May 2014 with limited liability and an indirect wholly owned subsidiary of our Company
“China Scivest Concession Agreement”	the concession agreement entered into between China Scivest and Dongguan Municipal Administration on 10 December 2004 pursuant to which China Scivest was granted the right to design, build and operate China Scivest WTE Plant for a period up to 30 November 2028 and supplemented by a supplemental agreement dated 29 June 2012 and a supplemental agreement dated 8 March 2014 entered into between China Scivest and Dongguan Municipal Administration
“China Scivest Power Purchase Agreement”	the power purchase agreement dated 29 November 2011 entered into between China Scivest and the Dongguan Power Supply Bureau

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## DEFINITIONS

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“China Scivest WTE Plant”	the WTE Plant owned and operated by China Scivest which is located at Shuilian Town, Nancheng District, Dongguan, Guangdong, the PRC
“CMS”, “Sole Sponsor”, “[Redacted]”, “[Redacted]”, “[Redacted]” or “[Redacted]”	China Merchants Securities (HK) Co., Limited (招商證券(香港)有限公司), a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contract), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under SFO
“Company”, “our Company”, “we” or “us”	Canvest Environmental Protection Group Company Limited (粵豐環保電力有限公司), an exempted company incorporated with limited liability in the Cayman Islands on 28 January 2014, and where the text requires, “we”, “us” or “our” shall mean the Group
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Connected Person”	has the meaning ascribed thereto in the [Redacted]
“Controlling Shareholders”	has the meaning ascribed thereto in the [Redacted] and in this [Redacted] unless the context otherwise requires, refers to Mr. KM Lai, Ms. Loretta Lee, VISTA Co, Century Rise and Best Approach; each of whom a Controlling Shareholder
“Core Connected Person”	has the meaning ascribed thereto in the [Redacted]
“CPNE”	China Power New Energy Development Company Limited (formerly Oriental Investment Corporation Limited), a company incorporated in Bermuda whose shares are listed on the Stock Exchange (stock code: 735) and is an Independent Third Party
“Deed of Indemnity”	a deed of indemnity dated [●] executed by the Controlling Shareholders in favour of our Group

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## DEFINITIONS

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“Director(s)”	directors of our Company or any one of them
“Dongguan Municipal Administration”	東莞市城市綜合管理局, formerly known as Dongguan Municipal Utilities Administration (東莞市市政公用事業管理局), a government department under the Dongguan People’s Government responsible for municipal management, and an Independent Third Party
“Dongguan Power Supply Bureau”	Dongguan Power Supply Bureau of Guangdong Power Grid Corporation (廣東電網公司東莞供電局), a local power grid company of Dongguan City of Guangdong Province, an Independent Third Party of our Group
“Eco-Tech”	Dongguan Eco-Tech Environmental Power Company Limited (東莞市科偉環保電力有限公司), a company established under the laws of the PRC with limited liability on 19 June 2003 and currently an indirect wholly owned subsidiary of our Company
“Eco-Tech Cayman”	Eco-Tech (Cayman) Holdings Limited, an exempted company incorporated in the Cayman Islands on 15 May 2014 with limited liability and an indirect wholly owned subsidiary of our Company
“Eco-Tech Power Purchase Agreement”	the power purchase agreement dated 30 December 2011 entered into between Eco-Tech and the Dongguan Power Supply Bureau
“Eco-Tech Land No. 1”	a parcel of land held by Eco-Tech, of a total gross site area of 93,731.64 square metres, locates at Xihuan Road, Hengli Town in Dongguan City of Guangdong Province, the PRC and on which Eco-Tech WTE Plant locates
“Eco-Tech Land No. 2”	a parcel of land held by Eco-Tech, of a total gross site area of 22,295 square metres, locates at Xihuan Road, Hengli Town in Dongguan City of Guangdong Province, the PRC and on which Kewei WTE Plant locates
“Eco-Tech WTE Plant”	the WTE Plant owned and operated by Eco-Tech which is located at Xihuan Road, Hengli Town in Dongguan City of Guangdong Province, the PRC
“EPC Contract”	the main contract for engineering, procurement, and construction in relation to the Zhanjiang Project dated 18 July 2014 entered into between Zhanjiang Yuefeng as the employer and a consortium formed by China Light Industry Guangzhou Engineering Co., Ltd. (中國輕工業廣州工程有限公司) and Hunan Star Construction Group Co., Ltd. (湖南星大建設集團有限公司), each an Independent Third Party, as the EPC Contractor



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## DEFINITIONS

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“EPC Contractor”	the contractor under a contract for engineering, procurement and construction
“Euromonitor”	Euromonitor International Limited, a global research organisation and an Independent Third Party, which engages in the provision of international market intelligence
“Euromonitor Report”	the report entitled “Waste to Energy Market in Mainland China” issued by Euromonitor, which was commissioned by us
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth), unless otherwise stated
	[Redacted]
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries or, where the context so requires, with respect to the period before which the Company became the holding company of its current subsidiaries, the Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Harvest VISTA Trust”	The Harvest VISTA Trust, a discretionary trust founded by Ms. Loretta Lee and Mr. KM Lai, with Ms. Loretta Lee, Ms. Loretta Lee’s personal trust and Mr. KM Lai as beneficiaries
“Hengli Real Estate”	Dongguan City Hengli Town Real Estate Development Corporation (東莞市橫瀝鎮房地產開發公司), an Independent Third Party
“High Point”	High Point Investment Group Limited (漢邦投資集團有限公司), a company which held 45% interest in Zhanjiang Yuefeng as at the Latest Practicable Date

[Redacted]

## DEFINITIONS

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“**HK\$**” or “**HK dollars**” or “**cents**”      Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong

“**Hong Kong**” or “**HK**”      the Hong Kong Special Administrative Region of the PRC

[Redacted]

“**Hong Tong Hai**”      Hong Tong Hai Investments Limited (泓通海投資有限公司) (previously known as Hong Tong Holdings Limited (弘通控股有限公司)), a company incorporated under the laws of Hong Kong on 17 April 2002 with limited liability and currently an indirect wholly owned subsidiary of our Company

## DEFINITIONS

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**“Independent Third Party(ies)”** an individual(s) or a company(ies) which is/are independent of and not connected with (within the meaning of the [Redacted]), the directors, the chief executives and the substantial shareholders of our Company and our subsidiaries and their respective associates

[Redacted]

**“Kewei”** Dongguan Kewei Environmental Power Company Limited (東莞市科維環保電力有限公司), a company established under the laws of the PRC with limited liability on 13 February 2009 and an indirect wholly owned subsidiary of the Company

**“Kewei Cayman”** Kewei (Cayman) Holdings Limited, an exempted company incorporated in the Cayman Islands on 15 May 2014 with limited liability and an indirect wholly owned subsidiary of our Company

**“Kewei Power Purchase Agreement”** the power purchase agreement dated 30 December 2011 entered into between Kewei and the Dongguan Power Supply Bureau

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## DEFINITIONS

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“Kewei WTE Plant”	the WTE Plant owned and operated by Kewei which is located at Xihuan Road, Hengli Town in Dongguan City of Guangdong Province, the PRC
“Latest Practicable Date”	[19 September] 2014, being the latest practicable date for the inclusion of certain information in this [Redacted] prior to its publication
	[Redacted]
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, conditionally adopted on [●] 2014 which will be effective upon the [Redacted], as amended, supplemented or otherwise modified from time to time
“Ministry of Commerce” or “MOFCOM”	the PRC Ministry of Commerce, the PRC government agency responsible for the administration of domestic and international trade, foreign investment and international economic cooperation
“Mr. CT Lai”	Mr. Lai Chun Tung (黎俊東), an executive Director and the husband of Ms. Loretta Lee and a cousin of Mr. KM Lai and Ms. Guo Huilian, a senior management
“Mr. KL Lee”	Mr. Lee Kar Lung (李家龍), the brother of Ms. Loretta Lee and brother-in-law of Mr. CT Lai
“Mr. KM Lai”	Mr. Lai Kin Man (黎健文), also known as Li Jianwen (黎建文), one of our Controlling Shareholders and an executive Director, our deputy chairman and a cousin of Mr. CT Lai and Ms. Guo Huilian, a senior management
“Ms. Loretta Lee”	Ms. Lee Wing Yee, Loretta (李詠怡), one of our Controlling Shareholders, an executive Director, chairlady of our Company, the wife of Mr. CT Lai, the sister of Mr. KL Lee and cousin-in-law of Mr. KM Lai and Ms. Guo Huilian, a senior management

## DEFINITIONS

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“Noble Value”	Noble Value Investments Limited (珍豐投資有限公司), a company incorporated under the laws of BVI on 27 May 2011 with limited liability and an indirect wholly owned subsidiary of our Company
“NPC”	PRC National People’s Congress (中華人民共和國全國人民代表大會) and its Standing Committee
“Oceanic Ease”	Oceanic Ease Limited, a company incorporated in the British Virgin Islands with limited liability on 3 June 2013, owned as to 45% by Ms. Loretta Lee and as to 55% by Mr. KM Lai

[Redacted]

“PBOC”	the People’s Bank of China (中國人民銀行)
“Power Purchase Agreements”	collectively, China Scivest Power Purchase Agreement, Eco-Tech Power Purchase Agreement and Kewei Power Purchase Agreement

## DEFINITIONS

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“PRC” or “China”	the People’s Republic of China, which for the purpose of interpretation of this [Redacted] only, except where the context otherwise requires, does not include Hong Kong, Macau Special Administrative Region and Taiwan
“PRC government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Legal Advisers”	Shu Jin Law Firm, our legal advisers as to PRC laws
	[Redacted]
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance
	[Redacted]
“Renewable Energy Law”	Renewable Energy Law of the PRC (中華人民共和國可再生能源法), adopted by the NPC on 28 February 2005 and which became effective on 1 January 2006, amendment of which was passed on 26 December 2009 and which became effective on 1 April 2010
“Reorganisation”	the reorganisation of our Group in preparation for the [Redacted], as described in the section headed “History and development” of this [Redacted]
“RMB” and “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC, the PRC government agency responsible for matters relating to foreign exchange administration

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## DEFINITIONS

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“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“Shareholder(s)”	holders of Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on [●] 2014, the principal terms of which are summarised in “Appendix VI — Statutory and general information — Share Option Scheme”
“Shares”	ordinary shares in the share capital of the Company, with a nominal value of HK\$0.01 each
“Shunxing Petro”	Dongguan Shunxing Petrochemical Company Limited (東莞市順興石油化工有限公司), a limited liability company established in the PRC on 11 October 2000 and has been beneficially wholly owned by Mr. KM Lai’s mother since establishment
“State Council”	the State Council of the PRC  [Redacted]
“subsidiary”	has the meaning ascribed thereto in the [Redacted]
“Substantial Shareholder”	has the meaning ascribed thereto in the [Redacted]
“Swift Ample Business”	China Green Power Holdings Limited and its subsidiaries, held by Swift Ample which engaged in the provision of MSW treatment services and design, construction, operation and management of waste-to-energy plants
“Swift Ample”	Swift Ample Holdings Limited (沛豐控股有限公司), a company incorporated under the laws of BVI on 6 September 2011 with limited liability and a wholly-owned subsidiary of our Company  [Redacted]
“Technical Report”	the technical report prepared by Mott MacDonald (Beijing) Limited and included as Appendix IV to this [Redacted]
“Technological Upgrade”	upgrade of fluidised incineration system to moving grate incineration system

## DEFINITIONS

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“Track Record Period”	the three years ended 31 December 2013 and the six months ended 30 June 2014
	[Redacted]
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America
“VAT”	value-added tax
“VISTA Co”	Harvest Vista Company Limited, a company incorporated in the British Virgin Islands on 18 June 2014, whose entire issued share capital is held by HSBC International Trustee Limited in its capacity as trustee of Harvest VISTA Trust
“Wise Power”	Wise Power Investment Limited, a private company limited by shares incorporated under the laws of Cayman Islands with limited liability and is a wholly owned subsidiary of China Infrastructure Partners, L.P. and is a [Redacted]
“World Honour”	World Honour International Limited (世興國際有限公司), a company incorporated under the laws of Hong Kong on 30 June 1992 with limited liability and currently an indirect wholly owned subsidiary of our Company
“World Prosperous”	World Prosperous Investments Limited (世豐國際投資有限公司), a company incorporated under the laws of Hong Kong on 12 August 2011 with limited liability and currently an indirect wholly owned subsidiary of our Company
“Yi Feng”	Yi Feng Development Limited (億豐發展有限公司), a company incorporated under the laws of BVI on 3 May 2012 with limited liability and currently a wholly owned subsidiary of our Company
“Zhanjiang Concession Agreement”	the concession agreement dated 18 April 2013 entered into between Zhanjiang Yuefeng and the Zhanjiang DRB



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## DEFINITIONS

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“Zhanjiang DRB”	Zhanjiang Development and Reform Bureau (湛江市發展和改革局)
“Zhanjiang Project”	the Zhanjiang Incineration Power Plant BOT Special Concession Project
“Zhanjiang WTE Plant”	the WTE Plant to be constructed for the Zhanjiang Project which is located at the north side of Zhanjiang MSW Landfill Zone 1, Yingling, Mazhang District, Zhanjiang
“Zhanjiang Yuefeng”	Zhanjiang Yuefeng Environmental Power Company Limited (湛江市粵豐環保電力有限公司), a company established under the laws of the PRC on 3 April 2013 with limited liability and a 55%-owned subsidiary of our Company
“%”	per cent

*In this [Redacted], the English names of PRC nationals, entities, departments, facilities, certificates, titles, etc. are translations of their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

*Certain amounts and percentage figures included in this [Redacted] have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Unless otherwise specified, all times refer to Hong Kong time and references to years in this [Redacted] are to calendar years.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain terms used in this [Redacted] as they relate to our Company and as they are used in this [Redacted] in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.*

“ <b>bottom ash</b> ”	bottom ash is part of the non-combustible residue of combustion in a furnace or incinerator. The portion of the ash that escapes up the chimney or stack is, however, referred to as fly ash
“ <b>BOO</b> ”	build-own-operate, a project model in which a private entity builds, owns and operates their facilities and assets with no obligation to transfer their ownership of their relevant facilities and assets to any specified parties at any specified time
“ <b>BOT</b> ”	build-operate-transfer, a project model in which a private entity receives a concession from the public sector to finance, design, construct and operate a facility stated in the concession contract for a definite period of time and transfer the facility and assets to the public sector after the completion of the concession period, at which point the obligation of the private entity to operate the designed and constructed facility effectively terminates
“ <b>CEMS system</b> ” or “ <b>continuous emissions monitoring system</b> ”	continuous emissions monitoring system connected to the environmental protection authorities which are responsible for monitoring the pollutants emissions of our WTE plants with the real-time data received from the CEMS system
“ <b>dioxins</b> ”	chemical compounds belonging to the family of 75 polychlorinated dibenzo-p-dioxins which are carcinogenic to human, and are formed when chlorine-containing organic substances (such as polyvinyl chloride or PVC) are burned
“ <b>dispatch</b> ”	as a noun, the schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a plant means to direct the plant to operate

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## GLOSSARY OF TECHNICAL TERMS

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“fluidised bed (incinerator)”	fluidised bed incinerator adopts a combustion technology used to burn solid fuels. In its most basic form, fuel particles are suspended in a hot, bubbling fluidity bed of ash and other particulate materials (sand, limestone, etc.) through which jets of air are blown to provide the oxygen required for combustion. The resultant fast and intimate mixing of gas and solids promotes rapid heat transfer and chemical reactions within the bed
“fly ash”	fly ash, also known as flue-ash, is one of the non-combustible residues generated in combustion, and comprises the fine particles that rise with the flue gases. Ash which does not rise is termed bottom ash
“GW”	gigawatt, one million kW
“GWh”	gigawatt-hour, one million kWh
“installed capacity”	the manufacturers’ rated power output of a generating unit or a power plant, usually denominated in MW
“kW”	kilowatt, one thousand watts
“kWh”	kilowatt-hour. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“m <sup>3</sup> ”	cubic metres
“moving grate (incinerator)”	moving grate incinerator adopts combustion technology in which a trash passes through the hopper into the downward inclined moving grate (fire grate is separated into three zones: drying zone, combustion zone, and burnout zone). The movement between moving grates will push the garbage to the downward direction and through the three zones in sequence, until burnout. Combustion air inlets from beneath the fire grate and mixes with the garbage. High temperature flue gas heats the surface of the furnace and will be cooled at the same time. Finally, the flue gas is discharged after the treatment
“municipal solid waste” or “MSW”	a waste type consisting of everyday solid items that are produced from urban residents’ daily life activities and services for their everyday life, as well as other solid waste deemed by the authorities as waste, including household waste, commercial waste, waste from trading markets, streets and other public places, as well as non-industrial waste from institutions, schools, factories, etc.

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## GLOSSARY OF TECHNICAL TERMS

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“MW”	megawatt, one thousand kilowatts. The installed capacity of power plants is generally expressed in MW
“MWh”	megawatt-hour, one thousand kilowatt-hours
“ng”	nanogram
“on-grid tariff”	the selling price of electricity for which a power generating project could sell the electricity it generated to the power grid companies, usually denominated in RMB per kWh
“TEQ”	toxic equivalent quality
“tonne”	metric tonne
“waste-to-energy” or “WTE”	the process of generating electricity from the incineration of waste
“waste treatment fee(s)”	the fees that are collected for processing municipal solid waste delivered by the waste suppliers

## **FORWARD-LOOKING STATEMENTS**

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This [Redacted] contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this [Redacted]. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectation and assumptions regarding our business, the economy and other future conditions. We can give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our ability to stay abreast of market trends and maintain commercially reasonable relationships with our customers and suppliers;
- our ability to retain core team members and recruit qualified and experienced new team members;
- our ability to maintain an effective control system;
- our operation and business prospect;
- our ability to maintain and strengthen our market position;
- expected growth of the WTE industry in the PRC;
- our prospective financial information;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to environmental protections and renewable energies in the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC government to manage economic growth;
- fluctuations in inflation, interest rates and exchange rates;

## **FORWARD-LOOKING STATEMENTS**

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- changes in the availability of, or new requirements for, financing;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;
- our ability to expand and manage our business;
- changes in restrictions on foreign currency convertibility and remittance aboard;
- changes to our expansion plans and estimated capital expenditure;
- our dividend policy;
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors; and
- other factors discussed in the sections headed “Summary”, “Risk factors”, “Industry overview”, “Business” and “Financial information”.

Our Directors confirm that these forward-looking statements are made after due and careful consideration.

Any forward-looking statement made by us in this [Redacted] speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this [Redacted] are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully consider all of the information in this [Redacted] including the risks and uncertainties described below before making an investment in our [Redacted]. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed “Regulatory overview” in this [Redacted].*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### **Our business and results of operations may be adversely affected during or after the Technological Upgrade of our Eco-Tech WTE Plant, or in case we fail to complete the Technological Upgrade**

We are subject to various risks associated with the Technological Upgrade of our Eco-Tech WTE Plant.

##### *Loss of revenue from suspending operations*

As all business operations of our Eco-Tech WTE Plant have been suspended since April 2014 for its Technological Upgrade, we have mainly relied on our Kewei WTE Plant and China Scivest WTE Plant (which was acquired in January 2014) for revenue and cash generation in 2014 and up to the Latest Practicable Date.

For the three years ended 31 December 2013 and the six months ended 30 June 2014, the revenue generated from Eco-Tech (which operated our Eco-Tech WTE Plant) amounted to approximately 17.0%, 43.1%, 44.0% and 16.2% of our Group’s total revenue during the respective periods, while the gross profit contribution of Eco-Tech amounted to approximately 6.0%, 18.6%, 21.2% and 2.6% of our Group’s gross profit during the respective periods. Please refer to the section headed “Financial information — Description of selected items in the consolidated income statement — Revenue — Gross profit and gross profit margin” in this [Redacted] for the revenue, gross profits and gross profit margins contribution from Eco-Tech during the Track Record Period.

Based on the prevailing applicable on-grid tariff and waste treatment fees, it is estimated that the Technological Upgrade will lead to loss of revenue of approximately RMB101.5 million and RMB94.6 million in the years ending 31 December 2014 and 2015, respectively. The substantial loss of revenue combined with on-going costs for the Technological Upgrade of our Eco-Tech WTE Plant, such as construction costs, financing and labour costs, may materially and adversely affect our business, financial condition or results of operations.

##### *The requisite approvals*

On 7 July 2014, the Guangdong DRC issued the project approval required for the Technological Upgrade of our Eco-Tech WTE Plant. Please refer to the section headed “Business — Our projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” for further details.

## **RISK FACTORS**

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However, we cannot assure you that we will not encounter any material delays or difficulties in obtaining the requisite approvals from other relevant authorities for the Technological Upgrade of our Eco-Tech WTE Plant. If we fail to obtain or encounter significant delays in obtaining the necessary approvals, we may not be able to complete the Technological Upgrade of our Eco-Tech WTE Plant as planned, or at all.

### *Financing*

The Technological Upgrade is a capital intensive project. If there is any cost overrun and we fail to obtain additional financing on terms that are acceptable to us, we will not be able to complete the Technological Upgrade of our Eco-Tech WTE Plant within our estimated time frame.

Our Directors currently estimate that RMB300 million, or approximately 66% of the capital investment, will be funded by bank loans. Eco-Tech entered into a loan agreement with a commercial bank pursuant to which the bank agreed in principle and subject to certain conditions to grant a revolving loan facility with a credit limit of RMB300 million. These conditions include (i) obtaining requisite approvals in accordance with the terms of the loan agreement; (ii) such terms stipulated in the loan agreement have not been breached; (iii) the guarantee provided by Kewei is still effective and subsisting. However, we cannot assure you that we will be able to fulfil such conditions by the time we require to draw the relevant bank loan, or at all. If we fail to fulfil the relevant conditions in a timely manner, we may not be able to complete the Technological Upgrade of our Eco-Tech WTE Plant as planned, or at all.

### *Contractors*

We rely on third party contractors to carry out construction work and equipment installation for the Technological Upgrade of our Eco-Tech WTE Plant. If such contractors fail to duly perform their work, this may result in delays in completion, unforeseen construction costs and budget overruns, and may materially and adversely affect the completion of the Technological Upgrade of our Eco-Tech WTE Plant.

If we fail to complete the Technological Upgrade of our Eco-Tech WTE Plant as planned, or at all, our business, financial conditions and results of operation might be adversely affected.

### *Subsequent arrangements upon completion of the Technological Upgrade*

Our Directors expect that Eco-Tech will initiate negotiations with MSW suppliers in the first quarter of 2015 with regard to the MSW supply before the commencement of the trial operation in the third quarter of 2015. In the event that Eco-Tech is unable to secure an adequate volume of MSW from MSW suppliers, then our business, financial condition and results of operations of our Eco-Tech WTE Plant may be adversely affected.

### **Our business may be adversely affected if any of the current favourable regulatory policies for the WTE industry in the PRC changes or is discontinued**

We are currently operating in a regulatory environment where the PRC government encourages the development of the renewable energy industry, which includes the WTE industry. According to the



## **RISK FACTORS**

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Notice of the State Council on Issuing the 12th Five-Year Plan for National Environmental Protection (國務院關於印發國家環境保護“十二五”規劃的通知) issued by the State Council in December 2011 and the National Twelfth Five-Year Plan for Construction of MSW Innocuous Treatment Facilities (“十二五”全國城鎮生活垃圾無害化處理設施建設規劃) issued in April 2012, the PRC government estimated there would be a total investment of approximately RMB3.4 trillion into environmental pollution control, of which approximately RMB263.6 billion would be invested in municipal solid waste treatment. Furthermore, under the Renewable Energy Law, the PRC’s utilisation of renewable energy, which includes energy converted from urban or rural organic waste, is promoted via a series of favourable policies applicable to the renewable energy industry in the PRC, including the implementation of a protective purchasing system for power output generated from renewable energy by WTE Plants.

On-grid tariffs represent the majority of our revenue during the Track Record Period, representing approximately 69.3%, 68.6%, 67.1% and 61.5% of our total revenue, respectively. The PRC government has promulgated favourable policies for WTE industry such as mandatory power purchase and grid connection privileges for power generated from renewable energy resources, which include MSW. Pursuant to the Renewable Energy Law, grid companies must enter into grid connection agreements with WTE plants which generate power by utilising renewable energy resources, and must purchase the full amount of the on-grid power of the renewable WTE plants within the coverage of their grids, subject to certain conditions. Currently, under such policy, the rates for the on-grid tariff for WTE plants are higher than for the conventional fuel plants. We cannot assure you that the PRC government will continue to implement, and that it will not adjust or even abolish these favourable policies related to the promotion of renewable energy and support of the WTE industry. Furthermore, favourable regulatory policies for the WTE industry in the future may apply differently to different or more advanced WTE technologies adopted by the WTE providers. Under such circumstances, our business, financial conditions and results of operation might be adversely affected.

### *Waste treatment fees*

Waste treatment fees are our second largest source of revenue during the Track Record Period, representing approximately 30.7%, 31.4%, 32.9% and 33.7% of our total revenue, respectively. Similar to other locations in China where the waste treatment fees are fixed by the relevant local authorities, in Dongguan where all our existing WTE plants are located, the unit price for waste treatment fees is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time. We have not in the past been subject to any commercial negotiations with our MSW suppliers on waste treatment fees. The waste treatment fees payable to our WTE plants in Dongguan were raised by the Dongguan Price Bureau mainly from RMB89.0 per tonne as at 1 January 2009 to RMB110.0 per tonne with effect from 1 June 2013.

For further information about our on-grid tariffs and waste treatment fees, please refer to the section headed “Business — Business model — Our sources of revenue” in this [Redacted].

Furthermore, since the pricing of our two main sources of revenue is to a large extent set by the PRC laws, regulations and policies, in the future we may not be able to adequately cover any increase in our costs of operation. We may not be able to adjust our price levels as and when it is commercially

## **RISK FACTORS**

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required. We cannot assure you that the relevant government authorities will approve our future applications to increase our price levels for the waste treatment fees and/or power sales. Even if the relevant government authorities agree to an adjustment to our price levels, we cannot assure you that such adjustments can fully cover the actual increase in our costs of operation.

### **We are subject to heavy reliance on a customer for power sales**

For the three years ended 31 December 2013 and the six months ended 30 June 2014, the revenue generated from our sale of electricity to the Dongguan Power Supply Bureau represented approximately 69.3%, 68.6%, 67.1% and 61.5%, respectively, of our total revenue for such periods. Similar to other WTE industry players in the PRC, our business model may not be easily changed to reduce the level of single customer reliance due to the nature of the regulatory regime, and we believe such high level of reliance is unlikely to decrease in the foreseeable future. In contrast, the Dongguan Power Supply Bureau does not rely heavily on us in its purchase of power, as we believe that we are not a major supplier to it. If the PRC government’s policy changes, it may not be possible for us to find alternative purchaser for our electricity.

Similarly for our Zhanjiang Project, we expect that we will rely solely on the Zhanjiang Power Supply Bureau for our power sales when our Zhanjiang WTE Plant commences operations.

Any significant non-purchase, non-payment, non-compliance, insolvency or liquidation of Dongguan Power Supply Bureau and/or Zhanjiang Power Supply Bureau or changes in the policies in relation to mandatory power purchase policy may make it difficult for us to find alternative purchaser for our electricity and could materially and adversely affect our business, financial condition and results of operations.

### **We may fail to secure and implement new WTE projects or integrate future acquired or newly developed businesses into our existing operations**

#### *Difficulty in securing new projects*

As part of our expansion strategy, we intend to expand our WTE business through the acquisition of existing WTE plants and bidding for new WTE projects. However, there is no assurance that we will identify appropriate new projects which will meet our selection criteria. If we are able to identify new projects, there is no assurance that we will be successful in acquiring or bidding for the target projects due to various factors, such as unforeseen changes in governmental policies and regulations which would affect or even disallow our potential acquisitions. In addition, we might fail to identify new projects due to insufficient land resources, infrastructure, equipment and/or construction materials which are necessary for the development and operation of new WTE projects.

## **RISK FACTORS**

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### *Difficulty in implementing new projects or integrating acquired projects*

Even if we successfully secure new projects as part of our expansion strategy, the new WTE plants are subject to a number of risks, including but not limited to:

- unforeseen engineering, design, environmental or geological problems;
- failure to collaborate with local governments to execute the construction and operation, as applicable, of the WTE projects;
- fail to secure financing for the WTE projects;
- the failure to assess the expected benefits of the new projects;
- difficulties or delays in obtaining the required approvals from governmental bodies;
- higher costs of integration than we anticipated;
- the failure to integrate the new projects and its personnel into our existing business;
- changes in market circumstances and demand; and
- diversion of our management’s time and attention from other business concerns.

We also cannot assure you that our strategy will be implemented successfully or that we will be able to secure favourable terms within a desired time frame for our acquisitions or new WTE projects, or at all. We cannot assure you that we will achieve our expected returns on such acquisitions or investments. If we fail to secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, financial condition and results of operations may be materially and adversely affected.

### **Our BOT projects are subject to stringent contractual obligations and any failure to adhere to the concession terms may result in adverse effects on our business**

Our business includes the development and/or the operation of WTE plants on a BOT basis (namely our China Scivest WTE Plant and our Zhanjiang WTE Plant).

BOT concession agreements govern the full life cycle of the BOT projects, from project development, financing, operational standards to handover conditions at termination. Our BOT projects therefore subject us to stringent contractual obligations. Breaches on our part of any of our BOT concession agreements could result in penalties imposed on us or, in more serious cases, termination of the concession agreement.

For instance, the Zhanjiang Concession Agreement sets out stringent contractual obligations on our part in relation to financing and the milestone dates by which Zhanjiang Yuefeng needs to complete certain tasks and obtain various certificates in relation to national environmental standards in respect of our Zhanjiang WTE Plant. Our obligation to ensure the continuous operation of our Zhanjiang WTE Plant will also be subject to certain specified conditions. For details of the terms of the Zhanjiang Concession Agreement, please refer to “Business — Our projects — Zhanjiang WTE Plant”.

## **RISK FACTORS**

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Our Zhanjiang Project, as with any BOT or other concession-based project, may be adversely affected by factors commonly associated with the construction of infrastructure projects that are beyond our control, including but not limited to any failure by third party construction contractors, any labour disputes and work stoppages, delays in receiving requisite approvals, licences or permits, adverse weather conditions and catastrophic events. In order for us to meet certain conditions under the BOT concession agreements, we may need to rely on counter parties’ compliance with the terms and obligations in the BOT concession agreements, and their failure to do so may affect our ability to achieve the milestone dates on time and thus may result in losses. For instance, although construction work for the Zhanjiang Project was required to commence before 18 June 2014 as originally stipulated in the Zhanjiang Concession Agreement, Zhanjiang Yuefeng is still in the process of obtaining the land use right certificate (國有土地使用證), which is a pre-requisite document for obtaining the approval for the commencement of the construction work of the plant building. As such, there is no assurance that the construction of phase one of our Zhanjiang Project will be completed in accordance with the Zhanjiang Concession Agreement. Furthermore, failure to meet the milestone dates may subject Zhanjiang Yuefeng to penalty payments. The Zhanjiang WTE Plant is required to begin trial operation by the stipulated date (i.e. 18 July 2015) and commercial operation within six months of the commencement of the trial operation, and any delay of more than 30 days for the trial operation or commercial operation would subject Zhanjiang Yuefeng to a penalty payment of RMB100,000. The penalty will increase to RMB200,000 and RMB300,000 if such delay exceeds 60 days and 90 days, respectively. An additional penalty of RMB300,000 would be fined for every 30 days thereafter. We have duly obtained a written notice issued by the Zhanjiang DRB dated 30 July 2014 whereby the Zhanjiang DRB has agreed to defer the milestone date for the commencement of construction work to the date on which Zhanjiang Yuefeng receives the construction work commencement permit and to defer all subsequent milestone dates accordingly without penalty. For further details, please refer to the section headed “Business — Our projects — Zhanjiang WTE Plant — Current status of the Zhanjiang Project”. However, there is no assurance that we can meet the deferred milestone. In addition, such kind of delays would lock up our capital funding which we have to set aside for the construction of the Zhanjiang Project, which may otherwise be available for use in other revenue-generating projects.

If we fail to comply with any terms or requirements under the concession agreements of our BOT projects in the future, the local governments may withdraw the concessions or terminate our agreements. If any such terminations were to occur, it may adversely affect our whole business.

### **Our business and operations are capital intensive and our failure to raise capital could adversely affect our results of operations and financial condition**

Given that our business and operations are capital intensive in nature, our success is heavily dependent on our ability to raise funding for our business needs, such as by borrowing from banks in the form of project financing. However, our ability to obtain project financing is subject to a number of uncertainties, including, among other things:

- regulatory approvals to raise financing in the domestic or international markets;
- our financial condition, results of operations, cash flows and credit history;
- the conditions of the global and domestic financial markets; and

## **RISK FACTORS**

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- changes in PRC monetary policy with respect to bank lending practices and conditions.

In addition to our current business operations, we expect to continue to identify and develop new projects which will require significant investment. However, we may not be able to forecast capital investments with certainty. Pursuant to applicable regulations, we are required to fund at least 20% of total project investment amounts through internal resources. In practice, the percentage of funding from our own resources varies on a project-by-project basis, but we currently intend to fund at least 30% of total project investment amounts by internal resources. We therefore need to obtain external fund source of up to 70% of the total project investment amounts.

Currently, we are implementing the Technological Upgrade of our Eco-Tech WTE Plant and developing our Zhanjiang Project, both of which require substantial capital to complete. For the Technological Upgrade of our Eco-Tech WTE Plant, our Directors currently estimate that 34%, or RMB152.4 million, of the total capital investment for the Technological Upgrade will be funded by shareholder capital contribution and RMB300 million, or approximately 66% of the capital investment for the Technological Upgrade, will be funded by bank loans. In respect of the bank loans, Eco-Tech entered into a loan agreement and a supplemental loan agreement both dated 18 June 2014 with a commercial bank, pursuant to which the bank agreed in principle and subject to certain conditions to grant a revolving loan facility with a credit limit of RMB300 million for the period from 18 June 2014 to 17 June 2022. The conditions in the loan agreement include (i) obtaining the requisite approvals in accordance with the terms of the loan agreement, (ii) terms of such agreement have not been breached, (iii) the guarantee provided by Kewei, the guarantor of the loan agreement, is still effective and subsisting.

For our Zhanjiang Project, our Directors currently estimate RMB120.2 million (equivalent to approximately HK\$151.5 million), or approximately 25% of the total capital investment in respect of phase one of the Zhanjiang Project, will be funded by shareholder capital contribution and RMB350 million (equivalent to approximately HK\$441.0 million), or approximately 75% of the total capital investment, will be funded by bank loans. Zhanjiang Yuefeng entered into a loan agreement on 18 August 2014 with Bank of China Limited Zhanjiang Branch (“**BOC**”) pursuant to which BOC agreed to grant a loan facility of up to RMB350 million to Zhanjiang Yuefeng subject to the terms and conditions of the loan agreement. Such terms and conditions include but not limited to the following: (i) the loan repayment period shall be 120 months from the date of the first drawdown; (ii) each of Eco-Tech, Kewei and High Point shall execute a guarantee in favour of BOC guaranteeing the repayment obligations under the loan agreement; and (iii) Zhanjiang Yuefeng shall execute a charge over the income receivable pursuant to the Zhanjiang Concession Agreement in favour of BOC as security for the repayment of the loan. As at the Latest Practicable Date, Zhanjiang Yuefeng has not yet drawn down any loan under the loan agreement.

We may not be able to raise project financing that would meet our business needs. If we fail to obtain additional financing on terms that are acceptable to us, we will not be able to implement our projects or pursue our development plans. Furthermore, in the event we raise additional funds by way of a placement or by a rights offering of new Shares or convertible securities, Shareholders who are unable or unwilling to participate in such additional fundraising may suffer dilution of their shareholding. If adequate working capital is not available to us in a timely manner, on commercially acceptable terms, or at all, we may not be able to develop or expand our business and, therefore, our business, prospects, financial condition and results of operations may be materially and adversely affected.

## **RISK FACTORS**

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### **Our WTE plants are highly dependent on the due performance of our waste suppliers**

MSW is the most significant raw material for power generation at our WTE plants, and our operations are therefore highly dependent on our ability to successfully secure sufficient amounts of MSW supplies and the MSW suppliers' ability to fulfil their obligations under the relevant supply contracts.

While our BOT projects have the benefit of certain undertaking from governmental bodies in respect of MSW under the relevant concession agreements, we may encounter difficulties in enforcing such undertaking against the governmental bodies. Our Eco-Tech WTE Plant and Kewei WTE Plant which are not operated pursuant to government concessions do not benefit from such guarantee by the municipal government. Other uncertainties include failure to renew waste treatment contracts upon expiry or early termination as a result of any breach or liquidation of the MSW suppliers. For our Eco-Tech WTE Plant and Kewei WTE Plant, if we fail to renew our existing contracts or secure replacement contracts for the sufficient supply of MSW on commercially acceptable terms, our business, financial condition and results of operations may be materially and adversely affected. For our Zhanjiang Project, pursuant to the Zhanjiang Concession Agreement, Zhanjiang DRB or other governmental bodies designated by the Zhanjiang Municipal People's Government guarantee to supply or commission a third party to supply Zhanjiang Yuefeng with a daily average of not less than 800 tonnes per day of permitted MSW. However, such amount of guaranteed supply of MSW is lower than the daily processing capacity of 1,000 tonnes for phase one of the Zhanjiang WTE Plant.

All of our WTE plants, whether BOT-based or not, rely on the steady supply of MSW and the MSW suppliers to duly perform their contractual obligations to supply the agreed amounts of MSW to us. The transportation of MSW to our WTE plants may be subject to various uncertainties, including road conditions, transport infrastructure, weather, public demonstrations, unrest or strikes.

Furthermore, we rely on the MSW suppliers' compliance with their obligations to ensure that no prohibited waste such as explosive waste, medical waste, industrial waste and construction waste are included in the MSW delivered to us. Any failure on the part of the MSW suppliers to duly perform their contractual obligations would affect the efficiency and performance of our WTE plants. Pursuant to the terms of our waste treatment contracts, our MSW suppliers will compensate us if the supplied MSW contains waste that is prohibited from incineration. However, we may not be able to recover such compensation from the defaulting supplier if, due to the pooling of waste from various suppliers, we become unable to trace or identify the MSW supplier in default. Even if we can identify the defaulting MSW supplier, we may need to pursue legal action against such supplier for any damage suffered. Furthermore, the compensation we may obtain from a defaulting MSW supplier may not cover consequential damage to or losses of our business operations due to any such faulty supply of MSW. In addition, during the delivery of MSW to our WTE plants by the MSW suppliers, the vehicles of the MSW suppliers may cause disposal or leakage of waste and/or sewage and may result in complaints from the neighbouring areas to us.

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If our MSW suppliers breach their payment obligations to us under the waste treatment contracts, we may suffer loss. During the Track Record Period, one of our MSW suppliers failed to settle a waste treatment fee of approximately HK\$4,071,000 and we are still in the process of negotiating with such MSW supplier to recover the relevant outstanding amount. Please refer to the section headed Financial information — Discussion of certain balance sheet items — Trade receivables, other receivables, deposits and prepayments” in this [Redacted] for further details.

Furthermore, in the business operations of our WTE plants, MSW is brought in our WTE plants by waste collection vehicles which are operated by our MSW suppliers and third parties. While these waste collection vehicles transporting waste to our WTE plants need to comply with our rules such as sealed and installed with auto-dumping systems, not exceeding the maximum designated weight and not bringing in prohibited waste, we cannot assure you that accidents involving property damage or personal injuries may occur due to factors which are beyond our control. If any such accidents occur, we may have disputes with these MSW suppliers and/or third parties and our business operations may be adversely affected.

**Our business operations are concentrated in Dongguan, which exposes us to geographical risks should natural disasters or other catastrophes occur in Dongguan, or the regional economy or market declines**

All of our currently operating WTE plants are located in Dongguan. As such, the operations of our WTE business are subject to geographical risks, including but not limited to any natural disasters, catastrophes, or other unrest in Dongguan. If the areas where we operate our business experience any natural disasters or other catastrophes or the threat of terrorist attacks, we may suffer serious losses and damage to our assets and properties, and our overall business and results of operations may be materially and adversely affected.

Furthermore, any adverse economic developments in Dongguan may affect regional waste generation rates and the supply of MSW provided to us. Any downturn in the economy in Dongguan may reduce the volume of MSW generated within the city and may adversely affect the ability and/or willingness of the MSW suppliers to maintain the same volume of business with us. On the other hand, any adverse market developments caused by additional waste processing capacity in this region may adversely affect the waste treatment fee per tonne as determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority, and as a consequence our business may be materially and adversely affected. Either of these developments could have a material adverse effect on our business and cash generation ability.

**We depend on independent contractors for the development of our new projects, and any failure of our contractors to duly carry out their work could have a material adverse effect on our results of operations**

We rely on third party contractors or service providers to supply various kinds of equipment (such as incinerators and boilers) and carry out construction work for the development of our projects. As we plan to acquire and develop new projects, and such future projects may involve the work of third party contractors to supply various kinds of equipment or carry out construction work for the development of such projects.

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We cannot assure you that our contractors will duly perform their contractual obligations. Any setbacks, delays in construction or in the delivery of supplies, or any deficiencies relating to the work of the related contractors may result in delays in completion of such projects, unforeseen construction costs and budget overruns. We also cannot assure you that such skilled contractors will continue to be available at reasonable rates. We may be exposed to risks relating to the quality of contractors' services and supplies. We may not be able to find a replacement contractor at acceptable cost, or at all, in the case of any failure on the part of a third party service provider to perform its contractual obligations in a satisfactory manner. In addition, we may be subject to claims arising from defective work performed by third party service providers. While we may attempt to seek indemnity from the relevant third party service providers, we may not be able to claim full compensation in a timely manner, and monetary compensation may not be an adequate remedy for any consequential breaches of our own contractual obligations. Any significant delays or unsatisfactory performance by our contractors may materially and adversely affect our business, financial condition and results of operations.

### **Our BOT projects have a limited period of operation and we may not be able to recuperate our investment and generate desirable revenue as anticipated**

We are currently operating the China Scivest WTE Plant under a BOT concession arrangement which is due to end on 30 November 2028. We are also developing the Zhanjiang WTE Plant under a 28-year BOT concession arrangement, which is due to expire on 18 April 2041. Under the arrangements, we have a right to operate these WTE plants until the expiration date. Upon the expiry of the concessions, the ownership and right to operate the WTE plants will have to be transferred back to the relevant concession grantor(s).

Given that the BOT concessions are for limited periods, we cannot estimate with certainty the payback periods of our investments as our two main sources of revenue (i.e., the waste treatment fees and on-grid tariffs) are subject to government price-setting. Any reduction in waste treatment fees and on-grid tariffs may also affect our cashflow and our ability to service our debts. Furthermore, if there are delays during the construction phase of the concession (such as in the Zhanjiang Project) or disruptions during the operation phase, our actual operation period may be shorter than anticipated and we may not be able to fully recuperate our high capital investment cost or generate a desirable level of revenue. There is also no guarantee that we will be able to successfully renew any concession arrangements upon their expiration.

If our operating period is shortened or disrupted or should we lose the right to operate these WTE plants before the expiration of the concessions, our financial condition and results of operations may be adversely affected.

### **We may not obtain the construction related licences and permits in respect of the China Scivest WTE Plant**

Under the China Scivest Concession Agreement entered into between China Scivest and the Dongguan Municipal Administration on 10 December 2004, China Scivest was granted the right to design, build and operate the China Scivest WTE Plant on a parcel of land for a period up to 30 November 2028. The construction of the China Scivest WTE Plant was completed in 2007. The other



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party of the China Scivest Concession Agreement, the Dongguan Municipal Administration, shall assist China Scivest and facilitate the obtaining of the construction related licenses and permits for the China Scivest WTE Plant. As at the Latest Practicable Date, the China Scivest WTE Plant has not yet obtained the construction work commencement permit (建築工程施工許可證), has not carried out the construction work completion inspection and has not obtained the construction completion inspection acceptance registration certificate (竣工驗收備案證書). Please refer to the section headed “Business — Properties — Plan to resolve certain defects in relation to certain construction related licenses and permits of the China Scivest WTE Plant” in this [Redacted] for details.

Although the Dongguan Municipal Administration has applied for a special approval on 13 August 2014 to the Dongguan Municipal People’s Government, we cannot assure you that we can obtain such licences and permits (or their equivalent) in respect of the China Scivest WTE Plant. If we fail for whatever reasons to obtain such licences and permits (or their equivalent) or cannot continue to use the relevant land and buildings in respect of the China Scivest WTE Plant, our business operations may be materially and seriously affected.

### **Our track record in the construction, implementation and development of WTE projects in Dongguan may not be a good indicator of the future performance of our existing and future projects and our Zhanjiang Project**

Whilst we have established and operated the facilities for our Eco-Tech WTE Plant and our Kewei WTE Plant in Dongguan, we do not have extensive experience in the implementation of a BOT project. The development and operations of our BOT projects (including the operation of our China Scivest WTE Plant which was acquired in January 2014, the development of our Zhanjiang Project and any future BOT projects) are subject to more stringent terms and reporting requirements under the concession agreements with the local governments. Please refer to the risk factor headed “Our BOT projects are subject to stringent contractual obligations and any failure to adhere to the concession terms may result in adverse effects on our business” above for further details. Furthermore, our track record in developing WTE projects in Dongguan may not be a relevant indicator for the future performance of any new projects which may be developed under our expansion strategy in other regions.

### **Our future income and cash flow patterns may be significantly different from that in our Track Record Period in light of our BOT projects**

The accounting policy for a BOT project is different from that of a BOO project (see section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications”). During the three years ended on 31 December 2011, 2012 and 2013, our Group has only operated BOO projects, as such we only recorded revenue arising from waste treatment fees and power sales with corresponding cash inflow. During the six months ended 30 June 2014, we have commenced to operate BOT projects, as such we have recorded a small amount of construction revenue and finance income relating to service concession arrangement from our Zhanjiang Project, representing approximately 4.7% and less than 0.1% of total revenue, respectively, in the said period. The construction revenue and finance income relating to service concession arrangement do not have any cash flow implications, as actual cash

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inflow will only be generated when the Zhanjiang Project commences trial operation and receives waste treatment fees and on-grid tariffs. However, during the construction of our Zhanjiang Project and any further BOT projects which we may undertake in the future, our revenue and cost recognition, as well as cash flow patterns may be significantly different from that in our Track Record Period.

**Our business, financial condition and results of operations may be adversely affected if we fail to obtain, or experience material delays in obtaining, requisite certificates, licenses, permits, or governmental approvals for our business operations, or fail to comply with various laws and regulations**

The WTE industry in the PRC is heavily regulated. We are required to obtain or renew certain permits, licences and approvals from various governmental bodies and to comply with relevant PRC laws and regulations in order to develop and operate the WTE plants and conduct our business. Such permits, licences or approvals include but are not limited to municipal solid waste processing service operating permits, power business permits and pollutant discharge permits. In addition, the standards of required regulatory compliance may change in the future. Any failure on our part to comply with any laws and regulations applicable to our business operations may result in administrative sanctions, penalties, or even revocation of permits or licences that are required for our operation. Please refer to the section headed “Business — Legal compliance and proceedings” in this [Redacted] for details.

We cannot assure you that we will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary certificates, licences or permits for our operations in a timely manner, or at all, in the future. If we fail to obtain and/or renew, or encounter significant delays in obtaining and/or renewing, the necessary certificates, licenses or permits for our business operations, this may adversely affect our results of operations and financial condition.

During the Track Record Period, we failed to comply with a number of relevant laws, rules and regulations applicable to us.

The following set out certain historical non-compliance incidents of our Group:

### *Unauthorised power sales*

Historically, as requested by certain local users, our Eco-Tech WTE Plant and our Kewei WTE Plant sold electricity to two nearby independent customers, which was not in compliance with the power purchase agreements with Dongguan Power Supply Bureau and relevant PRC laws and regulations.

As advised by our PRC Legal Advisers, based on relevant PRC laws and regulations, the maximum administrative penalty for such incident of non-compliance is forfeiture of the illegal proceeds and a fine of five times of the amount of the illegal proceeds. As such, Eco-Tech and Kewei are subject to maximum fines of RMB1,533,255 and RMB88,545, respectively, and forfeiture of the illegal proceeds for the above mentioned non-compliance incidents. Please refer to the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents - Unauthorised power sales ” in this [Redacted] for further details.

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### *MSW Processing Permit*

Historically, Eco-Tech, Kewei and China Scivest were engaged in the processing of municipal solid waste before obtaining municipal solid waste processing service operating permit (城市生活垃圾經營性處理服務許可證) (“**MSW Processing Permit**”) and as such, were not in compliance of relevant PRC laws and regulations.

As advised by our PRC Legal Advisers, according to relevant PRC laws and regulations, the maximum penalty for failure to obtain MSW Processing Permit is an order from the competent government authority that such operation activities be suspended, and a maximum fine of RMB30,000. Please refer to the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents - MSW Processing Permit ” in this [Redacted] for further details.

### *Land use rights and buildings ownership certificates and other related certificates*

Historically, we did not obtain certain permits and certificates with respect to the buildings of Eco-Tech WTE Plant and Kewei WTE Plant and the Eco-Tech Land No.1 and Eco-Tech Land No.2 where these buildings locate. We have subsequently obtained the outstanding permits and certificates from the relevant authorities, further details of some of these permits and certificates are set out below.

In respect of the construction land use planning permit (建設用地規劃許可証) for Eco-Tech Land No. 2 , the maximum penalty for failure to obtain such permit is revocation of the relevant land use right approval by the competent government authority.

In respect of the land use right certificates (國有土地使用權証), for Eco-Tech Land No. 2, a fine of RMB222,940 was imposed on Eco-Tech and paid in full on 21 January 2011; whereas for Eco-Tech Land No. 1, our PRC Legal Advisers are of the view that as Eco-Tech obtained the land use right certificate on 19 August 2011 and the two-year limitation period for administrative penalty has lapsed, and as such Eco-Tech will not be penalised by competent land administration authority with respect to such incident of non-compliance.

In respect of the construction work planning permit (建設工程規劃許可証), a fine of RMB748,189 was imposed on Eco-Tech in relation to the main plant building of Kewei WTE Plant which is leased to Kewei WTE Plant by Eco-Tech and paid in full on 30 May 2014 and no fine has been imposed on Eco-Tech yet for the buildings locate on Eco-Tech Land No.1. For Eco-Tech the maximum penalty for failure to obtain construction work planning permit (建設工程規劃 許可証) for the buildings locate on Eco-Tech Land No. 1 is an order from the competent government authority that such buildings be demolished or confiscated, and a maximum fine of 10% of the construction costs (i.e. being about RMB13.7 million).

Please refer to the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents - Land use rights and buildings ownership certificates and other related certificates” in this [Redacted] for further details.

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### *Production safety supervision and management procedures*

Historically, Eco-Tech, Kewei and China Scivest did not attend to the relevant procedures for the prevention and control of occupational disease for the WTE plants which are likely to cause occupational diseases and hazards.

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the production safety supervision and management authority is entitled to issue warning and correction order in a prescribed time, and in the event of failure to rectify accordingly may cause a maximum fine of RMB500,000, the subsidiary involved may also be ordered to stop its production which may cause occupational diseases and hazards. Please refer to the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents - Production safety supervision and management procedures” in this [Redacted] for further details.

### *Incidences of non-compliance with the Predecessor Companies Ordinance/Companies Ordinance*

During the due diligence exercise in preparation for the [Redacted], some incidents of non-compliance committed by our wholly owned subsidiaries incorporated in Hong Kong under the Predecessor Companies Ordinance and/or the Companies Ordinance were identified.

As advised by our legal adviser in relation to the non-compliance of section 111 and section 122 of the Predecessor Companies Ordinance, Mr. Vincent Lung, barrister-at-law in Hong Kong (the “**Adviser**”), each of the directors of the relevant Hong Kong subsidiaries are potentially liable for non-compliance with section 122 of the Predecessor Companies Ordinance. Further, each of the relevant Hong Kong subsidiaries and their officers are potentially liable for non-compliance with section 111 of the Predecessor Companies Ordinance. Please refer to the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents - Incidences of non-compliance with the Predecessor Companies Ordinance/Companies Ordinance” in this [Redacted] for further details.

Details of these historical non-compliance incidents and the measures we have taken or proposed to take to rectify these non-compliances are set out the section headed “Business — Legal compliance and proceedings - Historical non-compliance incidents” in this [Redacted].

We cannot assure you that we can rectify all or any of our historical non-compliance incidents. If we fail to rectify all or any of our historical non-compliance incidents or comply with the relevant laws and regulations, we may be subject to fines and penalties imposed by the relevant government authorities and may be required to suspend the use of our facilities.

### **Negative public perceptions of WTE projects may adversely affect our business**

Negative public perceptions, stemming from concerns about the environmental impact of WTE projects, have adversely impacted the development of the WTE industry in the PRC, as such the government’s policy for the WTE industry may be adversely affected. Recently in May 2014, local residents protested against a proposed waste treatment plant in Yuhang district of Hangzhou City, Zhejiang Province. In response to the protests, the local government announced that there would be

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no further work on the waste treatment plant until the public had been consulted over the scheme. In another more recent incident, it was reported in September 2014 that local residents took part in a protest against building a waste incinerator in Bolou county of Huizhou, Guangdong Province. Public perception of WTE projects and opposition by local residents against the construction of waste treatment facilities located near their residence may delay the awarding of WTE projects by municipal governments. Similarly, public protests may significantly delay the completion of WTE projects which have been awarded to us or which may be awarded to us in the future. Such delays could have a material adverse impact on our business, financial condition and results of operations.

### **Our assets are subject to hazards and our operation of WTE plants may be subject to various disruptions and risks**

Our assets could be damaged by fire, earthquake, flood, acts of terrorism and other hazards. Due to the nature of our business, we engage or may engage in certain inherently hazardous activities, including operations at height, use of heavy machinery and working with flammable and explosive materials. Our project construction and project operation businesses involve many risks and hazards, including breakdown, failure or substandard performance of equipment and improper installation or operation of equipment. These and other hazards can cause personal injury or death, severe damage to and destruction of property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. We may also be subject to fines, penalties or civil liabilities in the ordinary course of business as a result of damage or losses suffered by third parties, who may require us to make indemnification payments in accordance with applicable laws.

The operation of our WTE plants may be interrupted upon the occurrence of any of the following events:

- supply interruptions;
- breakdown or failure of equipment or processes;
- human errors and accidents;
- difficulty or inability to find suitable replacement parts for equipment;
- unplanned outages or disruption in the transmission of electricity generated due to system or equipment failures;
- any significant downtime at any of our WTE plants due to repairs and maintenance;
- adverse weather conditions and catastrophic events such as fires, earthquakes and floods;
- unforeseen engineering and environmental problems;
- performance that is below expected levels of output or efficiency;
- revocation of licences, permits or approvals and changes in legal requirements; and
- unanticipated cost overruns.

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We cannot assure you that we will be able to adequately prevent these events or control the impact of these events. In case the operation of our WTE plants is interrupted due to the above reasons, we may be subject to fines, penalties or civil liabilities due to our failure to perform our obligations under the waste treatment contracts or power purchase agreements.

### **The operations of the local grid company we rely on may be subject to significant disruptions**

While our WTE plants benefit from mandatory purchase obligations of grid companies, we rely on the local grid company to construct and maintain the infrastructure and provide the electricity transmission and dispatch services necessary to connect our power plants to the local grids. The transmission and dispatch of the output of a facility may be curtailed as a result of various grid constraints, such as grid congestion and restrictions on transmission capacity of the grid. Electricity transmission lines may experience unplanned outages due to system failures, accidents, severe weather conditions and other reasons beyond our control. Any failure or delays to secure grid connection will reduce power generation and limit our operational efficiencies, which in turn may adversely affect our business operations.

### **We have limited insurance coverage, which may be inadequate to cover all the risks associated with our business operations**

During the course of our operations, we may face various claims and disputes against liabilities that are not insured adequately, or at all, or liabilities that cannot be insured.

As advised by our PRC Legal Advisers, we are not obliged to take out insurance on our projects under the PRC law. We cannot predict the availability of insurance at acceptable premium levels, or at all. As such we may not be able to maintain insurance policies at economically acceptable premiums. We may not be able to obtain certain types of insurance (such as insurance covering losses from acts of war and natural catastrophe) at a reasonable cost, or at all. We cannot assure you that our insurance policies are sufficient to cover all risks associated with our business and operations. Losses incurred due to liabilities not sufficiently covered by our insurance policies may have a material and adverse effect on our business, financial condition and results of operations. Please refer to the section headed “Business — Insurance” in this [Redacted] for further details on our insurance policies.

### **We are dependent on our key management team and technical specialists**

We attribute our success to the leadership and contributions of our executive Directors and senior management team in the operation of our WTE plants. Please refer to the section headed “Directors and senior management” in this [Redacted] for details of our executive Directors and senior management team.

We are experiencing a period of rapid growth and expansion that has placed significant demands on our management resources and human capital. We are currently undertaking the development of the Zhanjiang Project and the Technological Upgrade of our Eco-Tech WTE Plant simultaneously. Our continued success is dependent on our ability to retain the services of our key management personnel or hire new technically qualified staff as our business expands.

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If we lose the services of our executive Directors and/or senior management team or technically qualified staff without timely and suitable replacement, or if we are unable to attract and retain a sufficient number of technically qualified staff to support our expansion plans, our results of operations and business strategies will be adversely affected.

### **We have had net current liabilities position at times during the Track Record Period**

We recorded net current liabilities of approximately HK\$356,225,000 and HK\$253,499,000 as at 31 December 2011 and 31 December 2012, respectively. Our net current liabilities position as at 31 December 2011 and 31 December 2012 was primarily attributable to borrowings we used to finance our working capital requirements and capital expenditure. Such borrowings in aggregate accounted for approximately 19.7% and 37.7% of our total current liabilities as at 31 December 2011 and 31 December 2012, respectively. For further details, please refer to the section headed “Financial Information — Liquidity and capital resources — Net current (liabilities)/assets” in this [Redacted].

We cannot assure you that we will not have net current liabilities position in the future. A net current liabilities position would expose us to liquidity risks, since we may be unable to refinance certain loans when they become due. There can be no assurance that we will always be able to obtain the necessary funding to refinance our short-term borrowings upon maturity to finance our capital commitments. If we were unable to refinance such borrowings when due, and we were not otherwise able to repay such amounts at maturity, we may be in default of such loans, which may trigger cross-defaults. In such circumstances, our business, liquidity, financial condition, results of operations and prospects could be materially and adversely affected.

### **We may incur additional costs or investments should the PRC or local government adopt stricter or additional environmental laws or requirements**

The existing Environmental Protection Law and related regulations require us to establish an environmental protection and management system, which includes adopting effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials, to discharge waste properly and to pay certain discharge fees. We must obtain the approval of environmental protection authorities at both state and local levels and can only operate, amongst others, after our technologies and equipment meet the strict environmental standards. For further information, please refer to the section headed “Regulatory overview — Major regulatory requirements relating to environmental protection” in this [Redacted].

Non-compliance with relevant industry regulations as well as the environmental laws and regulations applicable to our operations may result in substantial penalties or fines, suspension or revocation of our licenses or permits, stoppage of plant constructions or suspension of our operations. During the Track Record Period and up to the Latest Practicable Date, our Eco-Tech WTE Plant, Kewei WTE Plant and China Scivest WTE Plant were in compliance with the then in-effect national emissions standards.

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On 16 May 2014, the Ministry of Environmental Protection (環境保護部) and General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) of the People’s Republic of China jointly issued the new “Standard for Pollution Control on the Municipal Solid Waste Incineration” (生活垃圾焚燒污染控制標準(GB18485-2014)) which requires the new WTE plants which are constructed on or after 1 July 2014 and existing WTE plants which were constructed before 1 July 2014 to comply with the new standard on 1 July 2014 and 1 January 2016, respectively.

In the future, if the emissions standards contemplated by the Guangdong Provincial Environmental Protection Department come into force or if other stricter environmental laws or requirements are introduced by the PRC or local government, we may have to incur additional cost and/or investment and may need to suspend the operation of our WTE plants in order to be in compliance with such new laws and regulations.

### **Competition could intensify following the entry of new competitors into the market**

Due to the increasing demand for environmentally-friendly waste treatment in the PRC, new competitors could emerge in the market. As new competitors may enter the market, we may be unable to compete with them when bidding for new projects, or we may be forced to adjust our bids to remain competitive in the bidding process, thus our gross profit margin may be lowered. In addition, international competitors may enter the market and may be able to offer more advanced technologies.

There can be no assurance that we will continue to be successful in maintaining our position against current and future competitors. Any impairment in our ability to compete effectively could have a material adverse effect on our business, financial condition and results of operations.

### **Improvements in recycling of waste materials may have a material adverse effect on our business**

The PRC government has been implementing various policies to promote the recycling of waste materials. These measures may reduce the amount of waste suitable for MSW treatment, which will reduce the supply of MSW available to us and lead to a decrease in demand for WTE services and consequently, our business, results of operations and financial condition could be materially and adversely impacted.

### **Advances in other methods of innocuous treatment of waste may have a material adverse effect on our business**

Research and development activities are ongoing to provide alternative and more efficient technologies to treat waste. Technological advances in other methods of innocuous treatment of MSW, such as sanitary landfilling and composting may reduce the cost of waste management to a level below our costs and/or provide new or alternative methods of waste management that become more attractive than the WTE method of treatment. Any of these changes could have a material adverse effect on our revenues, business and the value of our existing facilities.



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**We may be liable to the EPC Contractor under the EPC Contract or the Supervising Contractor under the Supervision Contract if we fail to obtain or delay in obtaining any approval from the Zhanjiang DRB for phase two of the Zhanjiang Project**

Pursuant to the EPC Contract, the EPC Contractor is responsible for the project surveys, design, construction and procurement, installation and commissioning of equipment in relation to both phase one and phase two of the Zhanjiang WTE Plant for the total daily processing capacity of 1,500 tonnes of MSW. While the EPC Contract covers both phase one and phase two of the Zhanjiang Project, Zhanjiang Yuefeng has not obtained any approval from the Zhanjiang DRB for phase two of the Zhanjiang Project as at the Latest Practicable Date. Pursuant to the Supervision Contract, the Supervising Contractor shall be responsible for overseeing the construction work for phase one and phase two of the Zhanjiang Project. Please refer to the section headed “Business — Our projects — Zhanjiang WTE Plant” for further details of the EPC Contract.

If we fail to obtain or delay in obtaining any necessary approval from the Zhanjiang DRB for phase two of the Zhanjiang Project, we may not be able to proceed with the construction work for phase two of the Zhanjiang Project. Although we are not obliged to commence phase two of the Zhanjiang Project and we are not required to pay for the relevant construction cost if we do not instruct the EPC Contractor to commence the construction of phase two of the Zhanjiang Project under the EPC Contract, and the contract sum under the Supervision Contract shall be payable in stages according to the progress of the work done, we may have disputes with the EPC Contractor or the Supervising Contractor if we do not commence to build phase two of Zhanjiang Project. In such case, our business operation and financial condition may be adversely affected.

### **RISKS RELATING TO THE PRC**

**We may be affected by currency conversion and foreign exchange controls in the PRC**

A substantial portion of our turnover is denominated in Renminbi. In the PRC, SAFE regulates the conversion of Renminbi into foreign currencies and in certain cases, the remittance of currency out of the PRC. The existing PRC foreign exchange regulations allow, by complying with certain procedural requirements, payments of current account items (for example, profit distributions and interest payments) to be made in foreign currencies without prior approval from SAFE. Yet, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of the PRC for capital expense payments. The PRC government retains its discretion in restricting access to foreign currencies for current account transactions. There is no assurance that the foreign exchange policies will remain unchanged in the future.

The relevant applicable law in this respect is the Regulation for Foreign Exchange Controls of the PRC (effective on 1 April 1996) which was subsequently amended on 1 August 2008. According to the Regulation for Foreign Exchange Controls of the PRC:

- (a) conversion of Renminbi into foreign currencies for recurring items such as distribution of dividends and profits to foreign investors of foreign investment enterprises is permissible. These foreign investment enterprises may remit foreign currencies from their foreign currency bank accounts in the PRC upon satisfaction of certain requirements (for example, presenting the board resolution which allows such remittance); and

## **RISK FACTORS**

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- (b) conversion of Renminbi into foreign currencies for capital items, such as repatriation of capital and repayment of loans is still subject to the approval of the relevant authorities.

The operation of our Group may be affected if we cannot obtain the necessary approvals from SAFE and other competent authorities when such conversion and remittance are required.

### **The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to our Shareholders**

The PRC legal framework comprises the PRC constitution, written laws, regulations, directives and local laws and regulations. Decided cases may be cited for reference but have limited weight as precedents. Since 1979, the Chinese government has been developing a comprehensive system of laws and regulations to provide protection for various forms of foreign investment in the PRC. However, the PRC has not developed a fully-integrated legal system. The recently enacted laws and regulations may not sufficiently cover and regulate all material aspects of economic activity in the PRC. Many of these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, their interpretation and enforcement involve uncertainties and may not be as consistent and predictable as in other jurisdictions.

Further, the PRC legal system is also influenced by government policies and administrative rules that may have retroactive effect. As such, we may not be aware of our violations of these policies and rules until some time after the violation. The legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial cost and diversion of resources.

[Redacted]

**RISK FACTORS**

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[Redacted]

**RISK FACTORS**

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[Redacted]

**RISK FACTORS**

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[Redacted]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]



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**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**DIRECTORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Ms. Lee Wing Yee Loretta (李詠怡)	Penthouse B Penthouse Level 1-3 Grand Deco Tower 26 Tai Hang Road, Hong Kong	Hong Kong
Mr. Lai Kin Man (黎健文), also known as Li Jianwen (黎建文)	Unit B, 15/F, Block 3 Pacific View, 38 Tai Tam Road Hong Kong	Hong Kong
Mr. Yuan Guozhen (袁國楨)	Room 1302, Tower 11 Tian Jiao Feng Jing Dongcheng District Dongguan City Guangdong Province, PRC	Chinese
Mr. Lai Chun Tung (黎俊東)	Penthouse B Penthouse Level 1-3 Grand Deco Tower 26 Tai Hang Road, Hong Kong	Hong Kong
<i>Non-executive Directors</i>		
Mr. Lui Ting Cheong Alexander (呂定昌)	Flat F, 29/F, Tower 1 The Harbourside, 1 Austin Road West Tsim Sha Tsui, Hong Kong	Hong Kong
Mr. Lai Yui (黎韻)	Flat 15, 7/F, 8 Mansfield Road The Peak, Hong Kong	Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<i>Independent non-executive Directors</i>		
Professor Sha Zhenquan (沙振權)	Room 802, Tower 19 West Two Zone of South China University of Technology Wushan Road, Tianhe District Guangzhou, China	Chinese
Mr. Chan Kam Kwan Jason (陳錦坤)	Flat A, 10/F, Block 4 Beverley Heights 56 Cloud View Road North Point, Hong Kong	Hong Kong
Mr. Chung Wing Yin (鍾永賢)	Flat 59E, Tower 3 The Belcher’s 89 Pokfulam Road Pok Fu Lam, Hong Kong	Hong Kong

For further information, please see the section headed “Directors and senior management” in this [Redacted].

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**PARTIES INVOLVED IN THE [REDACTED]**

**Sole Sponsor**

China Merchants Securities (HK) Co., Limited  
48th Floor One Exchange Square  
Central, Hong Kong

**[Redacted]**

**Legal advisers to the Company**

*as to Hong Kong law:*  
King & Wood Mallesons  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen’s Road Central  
Hong Kong

*as to PRC law:*  
Shu Jin Law Firm  
23rd Floor, LT Square  
No.500 North Cheng Du Road  
Shanghai, 200003 China

*as to Cayman Islands law:*  
Maples and Calder  
53rd Floor, The Center  
99 Queen’s Road Central  
Hong Kong

**[Redacted]**

**Auditor and reporting accountant**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22/F Prince’s Building  
Central, Hong Kong

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Independent property valuer and valuation specialist**

American Appraisal China Limited  
13/F, On Hing Building  
1 On Hing Terrace  
Central, Hong Kong

**[Redacted]**

**Industry consultant**

Euromonitor International Limited  
29F Finance Square  
333 Jiujiang Road  
Shanghai, 200001  
China

**Technical expert**

Mott MacDonald (Beijing) Limited  
Suite 1005, Tower E  
Global Trade Center  
36 North 3rd Ring Road East  
Beijing, 100013  
China

**[Redacted]**

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## CORPORATE INFORMATION

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<b>Registered office</b>	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
<b>Headquarter and principal place of business in Hong Kong</b>	Unit 1701B, 17/F., International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
<b>Company website address</b>	<u><a href="http://www.canvestenvironment.com">www.canvestenvironment.com</a></u> <i>(contents of this website do not form part of this [Redacted])</i>
<b>Company secretary</b>	Ms. Wong Ling Fong Lisa (王玲芳) (HKICPA) 12B, Block 12, South Horizon Aberdeen, Hong Kong
<b>Authorised representatives</b>	Ms. Lee Wing Yee Loretta (李詠怡) Penthouse B, Penthouse Level 1-3 Grand Deco Tower 26 Tai Hang Road, Hong Kong  Ms. Wong Ling Fong Lisa (王玲芳) 12B, Block 12, South Horizon Aberdeen, Hong Kong
<b>Audit committee</b>	Mr. Chan Kam Kwan Jason (陳錦坤) (chairperson) Professor Sha Zhenquan (沙振權) Mr. Chung Wing Yin (鍾永賢)
<b>Remuneration committee</b>	Professor Sha Zhenquan (沙振權) (chairperson) Mr. Chan Kam Kwan Jason (陳錦坤) Mr. Chung Wing Yin (鍾永賢)
<b>Nomination committee</b>	Mr. Chung Wing Yin (鍾永賢) (chairperson) Professor Sha Zhenquan (沙振權) Mr. Chan Kam Kwan Jason (陳錦坤)
<b>Corporate governance committee</b>	Mr. Chan Kam Kwan Jason (陳錦坤) (chairperson) Ms. Lee Wing Yee Loretta (李詠怡) Professor Sha Zhenquan (沙振權) Mr. Chung Wing Yin (鍾永賢)

[Redacted]

**CORPORATE INFORMATION**

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**Principal bankers**

Dongguan Rural Commercial Bank Co., Ltd.  
No. 2, Hongfu East Road  
Dongcheng District, Dongguan  
Guangdong Province  
PRC

The Hongkong and Shanghai Banking Corporation  
Limited  
1 Queen’s Road Central  
Hong Kong

## **REGULATORY OVERVIEW**

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### **OVERVIEW**

Our WTE plants are located in China and therefore, the operation of our WTE plants shall comply with laws and regulations of the PRC. These laws and regulations cover a wide range of areas, including but not limited to project approval, waste treatment, power grid connection and dispatch, environmental protection, on-grid tariffs (including tariff subsidies), waste treatment fee subsidies and tax incentives. We also build and operate WTE plants under BOT concessions and therefore we are subject to regulations governing BOT projects. In addition, we shall also comply with all laws and regulations of the PRC relevant to our operations, such as those concerning foreign investment and foreign exchange control.

### **Macro Planning Policy for the Renewable Energy Industry**

Renewable energy includes hydro energy, biomass energy, wind energy, solar energy, geothermal energy, ocean energy, etc. These energy sources cause low environmental pollution and can be utilised on a sustainable basis. With the increasing population in China, the treatment of MSW has become a serious issue, causing the PRC government to pay more attention to the development and utilisation of biomass energy. Our WTE technology is one of the ways to generate energy from biomass.

The Renewable Energy Law of the PRC (中華人民共和國可再生能源法) (implemented on 1 January 2006 and amended on 26 December 2009), promulgated by the NPC, outlines a regulatory framework to promote the development and utilisation of renewable energy and eventually achieve sustainable development in the PRC. The law prioritises the development and utilisation of renewable energy in the area of energy development and promotes the establishment and development of the renewable energy market by stipulating corresponding measures and setting an overall target for the development and utilisation of renewable energy. The law stipulates that the power grid companies should purchase all power generated by renewable energy companies with connection to their grid and establishes preliminary measures to govern on-grid tariff for renewable energy companies. In addition, the law also provides certain preferential policies, such as the establishment of a renewable energy development fund, to promote the development of renewable energy.

The Catalogue for the Guidance of the Industrial Development of Renewable Energy (可再生能源產業發展指導目錄) (implemented on 29 November 2005) promulgated by the National Development and Reform Committee sets out 88 types of renewable energy projects. Projects that meet the relevant criteria enjoy support from preferential policies in various aspects, such as tax incentive, price subsidy and marketing support. Our WTE projects fall under the types of renewable energy projects which enjoy support from the preferential policies.

### **Macro Planning Policy for the MSW Treatment Industry**

According to the Opinion on Further Strengthening the MSW Treatment (關於進一步加強城市生活垃圾處理工作的意見) (implemented on 19 April 2011) promulgated by the General Office of the State Council, MSW treatment is an important part of urban administration and environmental protection. In order to improve the utilisation of organic content and heat energy in MSW, and the efficiency of WTE technology for increasing the overall utilisation of MSW, the law proposes that the national innocuous treatment rate of MSW shall reach above 80% by 2015, while direct-controlled



## **REGULATORY OVERVIEW**

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municipalities, provincial capital cities and certain cities mentioned in the law shall all achieve innocuous treatment of MSW by 2015. Meanwhile, the law requires governments to prioritise MSW treatment facilities as key infrastructure so as to ensure the smooth construction of such facilities. The law also provides guidance on strengthening policy support, establishing stimulus plans and strictly enforcing and enhancing the tax incentive policy for MSW treatment.

According to the Notice of the State Council on Issuing the 12th Five-year Plan for National Environmental Protection (國務院關於印發國家環境保護“十二五”規劃的通知) issued by the State Council, the PRC government estimated there would be a total investment of approximately RMB3.4 trillion in environmental protection during 2011 to 2015. The General Office of the State Council has issued the National Plan for Establishing Facilities for the Innocuous Treatment of MSW under the Twelfth Five-Year-Plan (“十二五”全國城鎮生活垃圾無害化處理設施建設規劃) (implemented on 19 April 2012), pursuant to the overall deployment of which, the General Office of the Guangdong Provincial People’s Government promulgated the Guangdong Provincial Plan for Establishing Facilities for the Innocuous Treatment of MSW under the Twelfth Five-Year-Plan (廣東省生活垃圾無害化處理設施建設“十二五”規劃) (implemented on 13 November 2012). The two regulations set specific planning goals for the construction of MSW treatment facilities and the level of resources to be utilised. In addition, to ensure the supply of land for the construction of MSW treatment facilities, local governments shall give priority to project plans involving the construction of MSW treatment facilities. For projects which comply with the Catalogue for the Allocation of Land (劃撥用地目錄), local governments shall allocate land for the construction of MSW treatment facilities. Land which is allocated for the construction of MSW treatment facilities shall not be used for other purposes and the land use of existing MSW treatment facilities shall not be altered.

### **MAJOR REGULATORY REQUIREMENTS FOR THE WTE PLANT**

#### **MSW Processing Permit**

According to Administrative Measures for MSW (城市生活垃圾管理辦法) (implemented on 1 July 2007) promulgated by the Ministry of Construction (now renamed as the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部)), enterprises which are engaged in the processing of MSW shall obtain a municipal solid waste processing service operating permit from the competent authority. Whereas those who fail to obtain the municipal solid waste processing service operating permit are prohibited from conducting any activities in relation to the processing of MSW.

#### **Waste Treatment Fees**

According to Administrative Measures for MSW (城市生活垃圾管理辦法) (implemented on 1 July 2007) promulgated by the Ministry of Construction (now renamed the Ministry of Housing and Urban-Rural Development) and the Notice on Implementation of the MSW Treatment Fee System to Facilitate Industrialisation of Waste Treatment issued by the State Development Planning Commission, the Ministry of Finance, the Ministry of Construction and the State Environmental Protection Administration (國家計委、財政部、建設部、國家環保總局關於實行城市生活垃圾處理收費制度促進垃圾處理產業化的通知) (implemented on 7 June 2002) jointly promulgated by the Ministry of Finance, Ministry of Construction (now renamed the Ministry of Housing and Urban-Rural Development), National Development and Reform Commission and State Environmental Protection

## **REGULATORY OVERVIEW**

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Administration (now renamed the Ministry of Environmental Protection), a portion of the revenue of WTE companies shall be from fees collected for the treatment of MSW. The amount of the MSW treatment fee shall be determined by the municipal pricing authority based on the principle of providing reasonable compensation on top of the costs for waste collection, transport and treatment. Such fees shall be paid by entities and individuals who produce MSW. In order to protect the interest of MSW treatment companies, MSW treatment fees shall fully paid to these companies and should not be withheld or used by any other authorities or entities.

According to the Administrative Measures for MSW Treatment Fees in Guangdong Province (廣東省城市生活垃圾處理收費管理辦法) (implemented on 1 December 2002) promulgated by the Guangdong Provincial Department of Finance, Department of Construction, Price Bureau and Environmental Protection Bureau and the Opinions of the Guangdong Provincial Price Bureau on the Use of Price Leverage to Promote the Industrial Development of WTE (廣東省物價局關於運用價格槓桿促進生活垃圾焚燒發電產業化發展的意見) (implemented on 23 August 2010) promulgated by the Guangdong Provincial Price Bureau (廣東省物價局) (now incorporated into the Development and Reform Commission of Guangdong Province) (廣東省發展和改革委員會), a portion of the revenue generated by WTE plants shall be from income for the incineration and treatment of MSW. The MSW incineration treatment fee shall be determined by the municipal pricing authority and the construction (environmental hygiene) administrative authority based on the principle of providing reasonable compensation on top of the costs for waste collection, transport and treatment. The standard MSW treatment fee shall be adjusted and published from time to time by the Guangdong Provincial Price Bureau (廣東省物價局) (now incorporated into the Development and Reform Commission of Guangdong Province) (廣東省發展和改革委員會) after taking into consideration the changes to the costs of MSW treatment and incineration, the quality of waste treatment of MSW, the policy requirements and the local affordability in different areas.

According to the Notice on Adjustment to the Compensation Standard of MSW Incineration Treatment (關於調整城市垃圾焚燒處理補償標準的通知) (implemented on 1 June 2013) promulgated by the Dongguan Price Bureau, the standard fee for waste incineration treatment is RMB110/tonne in Dongguan.

### **Electric Power Business License**

According to the Provisions on the Administration of Electric Power Business Licenses (電力業務許可證管理規定) (implemented on 1 December 2005) promulgated by the State Electricity Regulatory Commission (國家電力監管委員會) (now incorporated into National Energy Administration (國家能源局)), no entity or person shall be engaged in the electric power business unless an electric power business license has been obtained or certain special circumstances stipulated by the State Electricity Regulatory Commission are applicable. As our Group is engaged in the electric power business in the PRC, we are required to obtain the electric power business license for our operations.

## **REGULATORY OVERVIEW**

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Electric power business license is valid for 20 years. Upon the expiration of electric power business license, licensees who seek for renewals shall submit their applications to the electricity regulatory authorities within thirty days prior to the expiry.

According to the aforesaid regulation, our group with electric power business licenses for generating electricity is required to sign the electricity purchase contracts with the Grid Company which obtains electric power business licenses for power supply.

### **Mandatory Grid Connection and Full Amount Purchase and Related Agreements**

According to the Renewable Energy Law of the PRC (中華人民共和國可再生能源法) (implemented on 1 January 2006 and amended on 26 December 2009) and the Circular Economy Promotion Law of the People’s Republic of China (中華人民共和國循環經濟促進法) (implemented on 1 January 2009) promulgated by the NPC, the Interim Measures for Allocation of Income from Surcharges on Renewable Energy Power Prices Provisional Measures for Adjustment of Renewable Energy Tariff Additional Revenue (可再生能源電價附加收入調配暫行辦法) (implemented on 11 January 2007) promulgated by the National Development and Reform Commission, the Measures on Supervision and Administration of Grid Enterprises in Fully Purchase of Renewable Energy Power (電網企業全額收購可再生能源電量監管辦法) (implemented on 1 September 2007) promulgated by the State Electricity Regulatory Commission (now consolidated into National Energy Administration) and the Opinions of the Guangdong Provincial Price Bureau on the Utilisation of Price Leverage to Facilitate the Industrialisation Development of WTE (廣東省物價局關於運用價格槓桿促進生活垃圾焚燒發電產業化發展的意見) (implemented on 23 August 2010) promulgated by the Guangdong Provincial Price Bureau (廣東省物價局) (now incorporated into the Development and Reform Commission of Guangdong Province) (廣東省發展和改革委員會), the PRC government encourages and supports grid-connected renewable power generation and has implemented a system to guarantee the purchase of all electricity generated from renewable energy resources. Power grid enterprises shall enter into grid connection agreements and electricity sale and purchase contracts with WTE plants which have obtained administrative licenses in accordance with the law. Without such agreements, grid connection operations are prohibited. The full amount of on-grid electricity generated by a WTE plant shall be purchased by the power grid enterprises and such purchases shall be regulated by the electricity regulatory authorities.

### **Priority in Dispatch**

According to the Regulation on the Administration of Power Grid Dispatch (電網調度管理條例) (implemented on 1 November 1993) and the Notice of the General Office of the State Council on Forwarding the Trial Measures of the National Development and Reform Commission on Energy Saving and Power Generation Dispatch (國務院辦公廳關於轉發發展改革委等部門節能發電調度辦法(試行)的通知) (implemented on 2 August 2007) promulgated by the General Office of the State Council, the Measures on Supervision and Administration of Grid Enterprises in Fully Purchase of Renewable Energy Power (電網企業全額收購可再生能源電量監管辦法) (implemented on 1 September 2007) promulgated by the State Electricity Regulatory Commission (國家電力監管委員會) (now incorporated into National Energy Administration (國家能源局)), the Catalogue for the Guidance of the Industrial Development of Renewable Energy (可再生能源產業發展指導目錄) (implemented on 29 November 2005) promulgated by the National Development and Reform

## **REGULATORY OVERVIEW**

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Commission, grid-connected power plants shall abide by the unified dispatch orders established by the power dispatch agencies. Subject to ensuring a sufficient supply of electricity, power generated from renewable energy resources shall have priority in dispatch based on energy saving and economic principles. WTE is a type of biomass power generation which is entitled to have priority in dispatch under the law. The electricity regulatory authorities will supervise the implementation of the prioritised dispatch of electricity generated from renewable energy resources by the power dispatch agencies. Except under the circumstances of force majeure or instability to power grid safety, dispatch of electricity generated from renewable energy resources shall not be restricted.

### **On-grid Tariff and Subsidy**

The Renewable Energy Law of the PRC (中華人民共和國可再生能源法) implemented on 1 January 2006 and amended on 26 December 2009) promulgated by the NPC and the Provisions on Administration of Renewable Energy Power Generation (可再生能源發電有關管理規定) (implemented on 5 January 2006) promulgated by the National Development and Reform Commission provides principles for regulating the on-grid tariffs of WTE plants. Such regulations require the price authority of the State Council to determine the on-grid tariffs of renewable energy power generation projects according to different types of renewable power generation, different conditions of regions and in accordance with the principle of promoting the development and utilisation of renewable energy and the principle of economic rationality. Meanwhile, the price authority of the State Council shall make timely adjustments according to the technology development for the exploitation and utilisation of renewable energy.

On-grid tariffs refer to the price at which a power company may sell its power to the grid company. According to the Trial Measures for the Management of Prices and Allocation of Costs for Power Generated from Renewable Energy (可再生能源發電價格和費用分攤管理試行辦法) (the “**Trial Measures**”) issued in 2006 and applied to all WTE plants approved on or after 1 January 2006, on-grid tariffs for WTE plants comprise a “benchmark on-grid tariff for conventional coal-fired WTE plants in the same province” as determined by the government authorities from time to time plus a fixed “subsidy premium” of RMB0.25 per kWh. Such renewable energy projects are entitled to the subsidy premium for fifteen years after the commencement of their operations. Starting from 2010, the subsidy premium decreases progressively by 2% per year.

In 2012, the National Development and Reform Commission issued the Notice in relation to the Optimisation of Waste-to-Energy Power Tariff Policy (國家發展改革委關於完善垃圾焚燒發電價格政策的通知) (the “**WTE Power Price Policy Notice**”) which applied to all WTE plants approved on or after 1 January 2006 and cancelled the application of the Trial Measures. The WTE Power Price Policy Notice provides that for calculating on-grid tariffs, the amount of on-grid electricity generated shall be based on the amount of MSW processed. The on-grid tariffs for the first 280 kWh of power generated by every tonne of waste shall be RMB0.65 per kWh (VAT inclusive), and any additional power output shall be charged at the same rate as that for coal power projects in neighbouring areas. All of our WTE plants (including our Eco-Tech WTE Plant after its Technological Upgrade is completed and our Zhanjiang WTE Plant after its completion) are subject to the provisions in the WTE Power Price Policy Notice.

## **REGULATORY OVERVIEW**

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According to the Notice on the Regulating the Administration of On-Grid Tariff of WTE Plant (關於規範垃圾焚燒電廠上網電價管理的通知) (implemented on 30 April 2004) promulgated by the Price Bureau of Guangdong Province, the on-grid tariff for WTE plants in Guangdong Province is RMB0.55 per kWh starting from 1 May 2004. According to the Notice on Unification of the Grid Connection Expense of WTE Plant (關於統一垃圾焚燒發電廠接網費用的通知) implemented on 21 December 2007 and promulgated by the Price Bureau of Guangdong Province, for WTE plants approved for construction by government authorities before 31 December 2005 and enjoying on-grid tariff below RMB0.689 per kWh (tax inclusive), the electricity price shall be RMB0.58 per kWh, calculated by on-grid tariff of RMB0.55 per kWh plus grid connection expense of RMB0.03 per kWh. The electricity price of our Eco-tech WTE Plant was governed by this standard prior to its Technological Upgrade. In addition, as our Eco-tech WTE Plant (prior to its Technological Upgrade) was approved for construction before 31 December 2005, it is not subject to the provisions of the electricity price in the Trial Measures and WTE Power Price Policy Notice before its Technological Upgrade. The electricity price applicable to the Eco-tech WTE Plant after its Technological Upgrade will be subject to the WTE Power Price Policy Notice.

According to the Interim Measure on Allocation of Income from Surcharges on Renewable Energy Power (可再生能源電價附加收入調配暫行辦法) (implemented on 11 January 2007) promulgated by the National Development and Reform Commission of the PRC and the Opinions of the Guangdong Provincial Price Bureau on the Utilisation of Price Leverage to Facilitate the Industrialisation Development of Household Garbage Power Generation (廣東省物價局關於運用價格槓桿促進生活垃圾焚燒發電產業化發展的意見) (implemented on 23 August 2010) promulgated by the Guangdong Provincial Price Bureau (廣東省物價局) (now incorporated into the Development and Reform Commission of Guangdong Province) (廣東省發展和改革委員會), for WTE plants approved for construction by government authorities after 2006, grid connection fees are to be paid by the project owner and an appropriate fee may be added to the original basic tariff. The standard of increment should be based on the length of the grid connection lines: for lines less than 50 km, an additional RMB1 cent per kWh; for lines between 50-100 km, an additional RMB2 cents per kWh; for lines 100 km and above, an additional RMB3 cents per kWh.

According to the Measures on Supervision and Administrative of Grid Enterprises in Full Purchase of Renewable Energy Power (電網企業全額收購可再生能源電量監管辦法) (implemented on 1 September 2007) promulgated by the State Electricity Regulatory Commission (國家電力監管委員會) (now incorporated into National Energy Administration (國家能源局)), electricity regulatory authorities shall supervise and administer the settlement of electricity charges for power from renewable energy. Grid enterprises shall promptly and fully settle electricity charges and subsidies in strict compliance with the grid electricity price and subsidy standards for renewable energy as determined by the PRC authorities and the applicable power sale and purchase contract.

## **MAJOR REGULATORY REQUIREMENTS RELATING TO ENVIRONMENTAL PROTECTION**

### **Environmental Protection Law of the PRC**

The Standing Committee of the National People’s Congress promulgated and implemented the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (“Old Environmental Protection Law” hereinafter) on 26 December 1989. The Environmental Protection Law of the PRC (中

## **REGULATORY OVERVIEW**

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華人民共和國環境保護法(2014修訂) (“**New Environmental Protection Law**”), (implemented on 1 January 2015) revised and adopted at the NPC on 24 April 2014. Under the New Environmental Protection Law, all entities and individuals shall have the obligation to protect the environment. Enterprises, public institutions and other manufacturers and business operators shall prevent and mitigate environmental pollution and ecological damage and shall be liable for the damage that they have caused in accordance with the law. Construction projects which have an impact on the environment shall be subject to environmental impact assessment in accordance with the law. Any construction project which have not been subject to the environmental impact assessment in accordance with the law shall not commence construction. The State shall implement the pollutant emission license administration system in accordance with the provisions of the law. Enterprises, public institutions and other manufacturers and business operators shall discharge pollutants according to the requirements in their pollutant emission license and shall not discharge pollutants without obtaining the pollutant emission license.

### **Standard for Pollution Control on the Municipal Solid Waste Incineration**

On 16 May 2014, the Ministry of Environmental Protection and the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China jointly issued the new “Standard for Pollution Control on the Municipal Solid Waste Incineration” (生活垃圾焚燒污染控制標準 (GB18485-2014)) which requires new WTE plants constructed on or after 1 July 2014 and existing WTE plants to comply with the new standard by 1 July 2014 and 1 January 2016, respectively.

### **Pollutant Emission License**

According to the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) (implemented on 1 November 1984 and amended on 28 February 2008) and the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) (implemented on 1 June 1988 and amended on 29 April 2000) promulgated by the NPC, and the Administrative Regulation on the Levy and Use of Pollutant Discharge Fees (排污費徵收使用管理條例) (implemented on 1 July 2003) promulgated by the State Council, the government has implemented a system for controlling the total emission of pollutants. The people’s governments of provinces, autonomous regions and municipalities directly under the central government shall decrease and control the total emission of pollutants in their administrative regions according to the provisions of the State Council. The people’s governments of cities and counties shall, pursuant to the requirements of the targeted limit concerning the total emission of pollutants in their respective administrative regions, allocate the targeted limit amongst the pollutant emission entities for their implementation. Enterprises and institutions which directly or indirectly discharge pollutants into the water or air shall obtain a pollutant emission license and their emissions shall be in strict conformity with the emission conditions and the total emission limit imposed. Enterprises, institutions and sole proprietors that directly discharge pollutants into the environment shall pay pollutant emission fee in accordance with the provisions of foresaid laws and regulations. All the fees collected for emission of pollutants shall be exclusively used for the prevention and control of environment pollution.

### **Environmental Protection Assessment and Inspection for Acceptance for Construction Projects**

According to the Law of the PRC on Evaluation of Environmental Effects (中華人民共和國環境影響評價法) (implemented on 1 September 2003) adopted by the NPC, the Administrative Regulations

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## **REGULATORY OVERVIEW**

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on Environment Protection for Construction Project (建設項目環境保護管理條例) (implemented on 29 November 1998) promulgated by the State Council, the Catalogue for the Classified Administration of Environmental Impact Assessments for Construction Projects (建設項目環境影響評價分類管理名錄) (implemented on 1 October 2008) promulgated by the Ministry of Environmental Protection, the Notice of the Ministry of Environmental Protection, National Development and Reform Commission and National Energy Administration on Further Strengthening the Administration of Environmental Impact Assessment for Biomass Power Generation Projects (環境保護部、國家發展和改革委員會、國家能源局關於進一步加強生物質發電項目環境影響評價管理工作的通知) (implemented on 4 September 2008) promulgated by the Ministry of Environmental Protection, National Development and Reform Commission and National Energy Administration, and Regulations on Administration of Environmental Protection Testing Acceptance on Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法) (implemented on 1 February 2002) promulgated by the State Administration of Environmental Protection (now has renamed as the Ministry of Environmental Protection), the State shall classify and impose administrative measures for a construction project based on an assessment of the construction project’s environmental impact and the seriousness of the impact. WTE projects are classified as projects which have a significant impact on the environment which require a legal assessment of the project’s environmental impact. Before commencement of the construction, an environmental impact assessment report shall be prepared and filed with the environmental protection authority for approval. After completion of the construction, an application shall be made to the environmental protection authority for environmental protection inspection for acceptance. WTE plants shall only officially commence production or usage after completing its trial operation and passing the environmental protection inspection for acceptance upon completion of the construction project.

### **MAJOR REGULATORY REQUIREMENTS RELATING TO BOT CONCESSION OPERATIONS**

According to the Measures for the Administration on the Concession of Municipal Public Utilities (市政公用事業特許經營管理辦法) (implemented on 1 May 2004) promulgated by the Ministry of Construction (now renamed as the Ministry of Housing and Urban-Rural Development), the Opinions of the Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (建設部關於加強市政公用事業監管的意見) (implemented on 10 September 2005) and the Notice on Issuing Opinion about Advancing Industrialisation of Urban Sewage and Garbage Treatment by the National Development and Planning Commission, the Ministry of Construction and the State Environmental Protection Administration (國家計委、建設部、國家環保總局關於印發推進城市污水、垃圾處理產業化發展意見的通知) (implemented on 10 September 2002), the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to WTE projects. Government authorities shall select investors and management of WTE projects through public tender and government authorities shall enter into relevant concession agreements. The terms of the concession rights for municipal WTE projects shall not exceed 30 years. After the expiration of the term, governments shall re-select the concessionaire by public tender. The waste treatment fee shall be determined according to the principle of allowing municipal waste treatment facilities operators to recover their costs and earn reasonable profits.

The government’s supervision of concession rights operators in waste treatment projects mainly includes: (1) Routine supervision: the authorities in charge of supervising the municipal public utilities shall carry out periodic spot checks on the quality of service provided by waste treatment

## **REGULATORY OVERVIEW**

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facility operators and shall monitor the waste treatment cost. (2) Interim assessment: during the course of project operation, the authorities in charge of supervising the municipal public utility operators shall arrange for experts to carry out mid-term assessment of the waste treatment facility operators' performance; such assessment cycle shall be carried out at least once every two years. Under special circumstances, the government may carry out annual assessments. (3) Supervision of material matters: unless the government has granted its authorisation, waste treatment enterprises shall not transfer or lease their concession rights, dispose or mortgage project assets and shut down or wind up the business. If the enterprise having the concession right unilaterally proposes to terminate the concession agreement during the concession period, it shall make an application to the supervisory authority in advance. Before any such authority's approval of such cancellation, the relevant enterprise shall maintain its ordinary business and service. (4) Consequences of violations: the supervisory authority shall terminate the concession agreement and temporarily takeover the enterprise if the enterprise having the concession right commits any of the following activities: (a) Transfer or lease the concession right without authorisation; (b) Dispose or mortgage the business assets without authorisation; (c) Occurrence of any material quality or production safety accident due to poor management; (d) Ceasing operation or shutting down without permission, which seriously affects public interest and safety; and (e) Other conduct prohibited by laws and regulations.

### **REQUIREMENTS RELATING TO CONSTRUCTION WORK OF PROJECTS OF THE INDUSTRY**

According to the Construction Law of the PRC (中華人民共和國建築法) (implemented on 1 March 1998 and amended on 22 April 2011) and the Bidding and Tendering Law of the PRC (中華人民共和國招標投標法) (implemented on 1 January 2000) adopted by the NPC, various aspects of certain large-scale infrastructure and public utilities projects relating to social and public welfare and safety within the PRC, including surveying, design, engineering and supervision, as well as the procurement of major equipment and materials, shall be subject to tenders. In accordance with the provisions of the contract or the approval of the bidder, the winning bidder shall subcontract some minor or less crucial parts of the project to others.

The Provisions on Standards for the Scope and Size of Construction Projects Requiring Tender (工程建設項目招標範圍和規模標準規定) (implemented on 1 May 2000) promulgated by the National Development and Reform Commission and the Administrative Measures of Tender and Bidding for Construction Project of Buildings and Public Infrastructures (房屋建築和市政基礎設施工程施工招標投標管理辦法) (implemented on 1 June, 2001) promulgated by the Ministry of Construction (now renamed as the Ministry of Housing and Urban-Rural Development) further provide specific requirements for bidding and tendering. For example, for any of the aforesaid projects, construction contracts of more than RMB2 million in value, procurement contracts of more than RMB1 million in value, service contracts of more than RMB0.5 million in value or total investments of more than RMB30 million shall be subject to tender. To specify the requirements and procedures for bidding and tendering, the Provisions on Tender and Bidding of Exploration and Design Work for Construction Project (工程建設項目勘察設計招標投標辦法), the Provisions on Tender and Bidding of Construction Projects (工程建設項目施工招標投標辦法) and the relevant specific provisions were respectively promulgated.



## **REGULATORY OVERVIEW**

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### **LABOUR**

According to the Labour Law of the PRC (中華人民共和國勞動法) (implemented on 1 January 1995), the law is to protect the legal rights and interests of labour, balance the labour relationship between employers and employees and establish and maintain a labour system which is suitable for the market economy. The Labour Contract Law of the PRC (中華人民共和國勞動合同法) (implemented on 1 January 2008 and amended on 28 December 2012) and the Regulation on the Implementation of the Employment Contract Law of the PRC (中華人民共和國勞動合同法實施條例) (implemented on 18 September 2008) set forth further requirements for the relevant matters, such as the establishment of labour relationships and the execution, fulfillment, change and termination of labour contracts, and provide more protection for the legal rights and interests of the labour.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) (implemented on 1 July 2011), employees shall participate in basic pension insurance, basic medical insurance schemes and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers. Employers shall register with the local social insurance agency in accordance with the provisions of the Social Insurance Law of the PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for statutory exceptions such as force majeure, payment for social insurance premiums may not be delayed, reduced or be exempted.

According to the Regulations on the Administration of Housing Fund (住房公積金管理條例) (implemented on 3 April 1999 and amended on 24 March 2002), PRC companies must register with an applicable housing fund management center and establish a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the preceding year.

### **LAND USE RIGHTS**

#### **Land Use Rights and Real Estate Ownership Certificates**

According to the Land Administration Law of the PRC (中華人民共和國土地管理法) (implemented on 1 January 1999 and amended on 28 August 2004) and the Urban Real Estate Administration Law (中華人民共和國城市房地產管理法) (implemented on 1 January 1995 and amended on 30 August 2007), land use rights and real estate ownership should be registered and confirmed by certificates. Those certificates shall be obtained in compliance with the required legal procedures.

#### **Construction Land Planning Permit**

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) (implemented on 1 January 2008) promulgated by the NPC, once a project has been authorised, approved, or recorded by the relevant departments the construction entity of such project which has

## **REGULATORY OVERVIEW**

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been provided with a state-owned land use right by way of allocation of land in city or town planning area shall apply to a competent urban and rural planning administrative department at the municipal or county level of the People’s Government for permitting the land use for construction. The construction entity of a project which has been granted with a state-owned land use right by way of assignment of land shall apply to a competent urban and rural planning administrative department at the municipal or county level of the People’s Government for a Construction Land Planning Permit after entering into such state-owned land using right grant contract.

If a construction entity which is authorised to use the construction land fails to obtain a Construction Land Planning Permit, the People’s Government at or above the county level shall cancel any relevant authorisation document. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

### **Construction Work Planning Permit**

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) (implemented on 1 January 2008) promulgated by the NPC, where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply to a competent urban and rural planning administrative department of the People’s Government at the municipal or county level or to the People’s Government of town as recognised by the People’s Government of a province, autonomous region or municipality for a Construction Work Planning Permit.

For construction work that proceeds without the Construction Work Planning Permit or in violation of the provisions of the Construction Work Planning Permit, a competent urban and rural planning administrative department at or above the county level can order the termination of such construction; if the impact on the planning caused by such construction can be eliminated, the department shall order such construction entity to take remedial action within a prescribed time limit and pay a fine of not less than 5% of the construction cost but not exceeding 10% of such cost; if such impact cannot be eliminated by remedial action, the department shall order the construction entity to demolish such buildings or structures within a prescribed time limit. For construction work that cannot be demolished, the department shall confiscate such buildings or structures or seize any illegal income and may also impose a fine of not more than 10% of the construction price.

### **Construction Work Commencement Permit**

According to the Construction Law of the PRC (中華人民共和國建築法) (implemented on 1 March 1998 and amended on 22 April 2011), a construction entity shall, prior to the commencement of a construction, apply to a competent department of the construction administration of the People’s Government at or above the county level of the place where the project is to be located for a Construction Work Commencement Permit pursuant to the relevant regulations of the State. However, small projects, as determined by the competent department of construction administration of the State Council and construction projects which have already obtained approvals for their construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council, are subject to exception.

## **REGULATORY OVERVIEW**

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According to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) (implemented on 30 January 2000) promulgated by the State Council, a construction entity illegally commencing a project without obtaining the construction work commencement permit or approvals for its construction commencement report shall be ordered to stop the construction work and to carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the construction price.

### **Inspection and Acceptance on Completion of Construction Projects**

According to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) (implemented on 30 January 2000) promulgated by the State Council and Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) (implemented on 19 October 2009), a construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file a record to a competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks. Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checking in respect of the project within 15 days from the day when the construction project passes the acceptance checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.

## **FOREIGN INVESTMENT AND EXCHANGE**

### **Foreign Investment Enterprise Regulations**

According to the Catalog for Guiding Foreign Investment in Industries (2002) (外商投資企業指導目錄 (2002)) promulgated by the Ministry of Commerce, and its amendments issued in 2004, 2007 and 2011 respectively, both WTE plants and the construction and operation of the facilities for environmental pollution control fall within the category of industries in which foreign investment is encouraged. Foreign investors may invest in WTE plants and the construction and operation of the related facilities for environmental pollution control in the PRC by means of establishing Sino-foreign Equity Joint Venture Enterprises (EJV) or Sino-foreign Contractual Joint Venture Enterprises (CJV) or Wholly Foreign Owned Enterprises (WFOE).

### **Foreign Exchange Control**

The PRC implements a stringent foreign exchange regulatory system which has undergone several major reforms. The Foreign Exchange Regulations of the PRC (中華人民共和國外匯管理條例) (implemented on 1 April 1996 and amended on 5 August 2008), is currently the primary foreign exchange regulation, and is applicable to receipts and payments of foreign exchange or foreign exchange operating activities by domestic authorities and individuals in the PRC, as well as receipts

## **REGULATORY OVERVIEW**

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and payments of foreign exchange or foreign exchange operating activities in the PRC by authorities and individuals outside the PRC. The Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (implemented on 1 July 1996) promulgated by People’s Bank of China, regulates on matters such as settlement and purchase of foreign accounts, opening of foreign exchange accounts and payments to foreign accounts that are incurred in the PRC by domestic institutions, individual residents, foreign organisations stationed in the PRC and individuals visiting the PRC.

### **TAX PREFERENCES**

#### **Income Tax**

According to the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法) (implemented on 1 January 2008) adopted by the NPC, Regulations on the Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (implemented on 1 January 2008) promulgated by the State Council and the Catalogue for Enterprise Income Tax Preferences for Environmental Protection and Energy and Water Saving Programs (Trial) (環境保護節能節水項目企業所得稅優惠目錄(試行)) (implemented on 1 January 2008) promulgated by the Ministry of Finance, National Development and Reform Commission and the State Administration of Taxation, WTE plants belong to the categories of environmental protection and energy as well as water saving projects. Beginning from the tax year in which the project recorded its first operation revenue, revenue generated from an operating WTE plant shall be exempted from income tax for the first three years, and the income tax shall be halved from the fourth to the sixth year.

#### **Business Tax**

According to the Reply of the State Administration of Taxation on Levying Business Tax on Waste Treatment Fee (國家稅務總局關於垃圾外置費徵收營業稅問題的批覆) (implemented on 30 November 2005) promulgated by the State Administration of Taxation, labour services for waste treatment provided by enterprises or individuals do not fall under the service scope of labour on which business tax should be levied. Therefore, business tax shall not be levied on waste treatment fee.

#### **Value-added Tax (“VAT”)**

According to the Notice of the Ministry of Finance and the State Administration of Taxation on VAT Policies for Products Made from Comprehensive Utilisation of Resources and Other Products (財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知) (implemented on 1 July 2008) and the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting and Improving the Value-added Tax Policies for Products and Services Generated from or Related to Comprehensive Utilisation of Resources (財政部、國家稅務總局關於調整完善資源綜合利用產品及勞務增值稅政策的通知) (implemented on 1 January 2011) promulgated by the Ministry of Finance and State Administration of Taxation, comparing with the proportion of fuel for power generation, the proportion of waste treated by WTE plants shall not be less than 80 percent of the total fuel consumed and their pollutant emission shall conform to relevant standards. All WTE plants which meet the above standards shall have their VAT refunded immediately after collection. In accordance with the relevant

## **REGULATORY OVERVIEW**

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provisions of the Notice of the National Development and Reform Commission, the Ministry of Finance and the State Administration of Taxation on Publishing and Distributing the ‘Administrative Measures for the Determination of Resources Comprehensive Utilisation Encouraged by the State’ (國家發展改革委、財政部、國家稅務總局關於印發《國家鼓勵的資源綜合利用認定管理辦法》的通知) (implemented on 1 October 2006), tax payers could enjoy preferential VAT policies after obtaining the Accreditation Certificate of Comprehensive Utilisation of Resources. The relevant preferential VAT policies are not applicable if such certificate is not obtained.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting and Improving the Value-added Tax Policies for Products and Services Generated from or Related to Comprehensive Utilisation of Resources (財政部、國家稅務總局關於調整完善資源綜合利用產品及勞務增值稅政策的通知) (implemented on 1 August 2011) promulgated by Ministry of Finance and State Administration of Taxation, labour service income for waste and sludge treatment are exempted from VAT.

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## **INDUSTRY OVERVIEW**

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*The information that appears in this Industry overview section has been extracted from the Euromonitor Report prepared by Euromonitor, an independent market research agency, which we commissioned. Such information reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and was prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our Company. We believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the [Redacted], the [Redacted], the [Redacted], the [Redacted], any of our or their respective affiliates, directors, officers, representatives or advisors, or any other persons or parties involved in the [Redacted] and neither they nor Euromonitor give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.*

This “Industry overview” section contains information extracted from the Euromonitor Report. We commissioned Euromonitor, an Independent Third Party and an independent market research firm, to prepare the Euromonitor Report. Established in 1972, Euromonitor is an independent global research organisation with analysts in over 80 countries worldwide, researching and tracking fast-moving consumer goods, industrial, service and B2B markets. We paid a fee of US\$68,000 for the service provided. Our payment of such fee is not contingent upon the results of its analysis. Other key sources used to prepare this section included the data from National Bureau of Statistics of China and Bloomberg.

### **Research Methodology**

Euromonitor’s independent research was undertaken through primary research and secondary research. Primary research involved interviewing key stakeholders and industry experts, such as associations and WTE companies, upstream suppliers, etc. Sources of secondary research included government department statistics, trade and business press, company annual reports and publicity materials, industry reports and analyst reports, industry association reports, industry journals, other online sources and data from the research database of Euromonitor.

Euromonitor adopted multiple secondary and primary sources to cross check any data or information collected with no reliance on any single-source. A test of each respondent’s information and views against those of others was applied to eliminate possible bias from various sources. The projections and data relating to future periods made by Euromonitor were mainly based on a review over the historic market development, and a cross-check through in-depth trade interviews with key players, trade associations, established government/industry figures, etc. and were based on the assumptions that (i) there was no external shock such as natural disasters or the wide outbreak of protest against waste incineration in China; (ii) directional policy (i.e., the 12th Five-Year Plan for Waste Treatment) was likely to boost industry growth; and (iii) the Chinese economy was expected to remain stable. The reliability of the Euromonitor Report may be affected by the accuracy of the foregoing assumptions.

## **INDUSTRY OVERVIEW**

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The market information was collected through fieldwork programme consisting of desk research and trade interviews.

While audited data was available for some of the companies, they typically did not break the numbers into the relevant categories which were covered in this study. For these companies as well as those companies that were included in the market shares analysis but are not publicly listed, we have estimated the markets shares based on estimates provided by various trade sources (i.e. not just the companies themselves) and seeking a consensus on these estimates as much as possible.

Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

### **OVERVIEW OF MSW MANAGEMENT IN CHINA AND GUANGDONG PROVINCE**

MSW is a waste type consisting of daily solid items that are produced from urban residents’ daily life activities and services, as well as other solid waste deemed by the authorities as municipal waste, including household waste, commercial waste, waste from trading markets, streets and other public places, as well as non-industrial waste from institutions, schools, factories, etc.

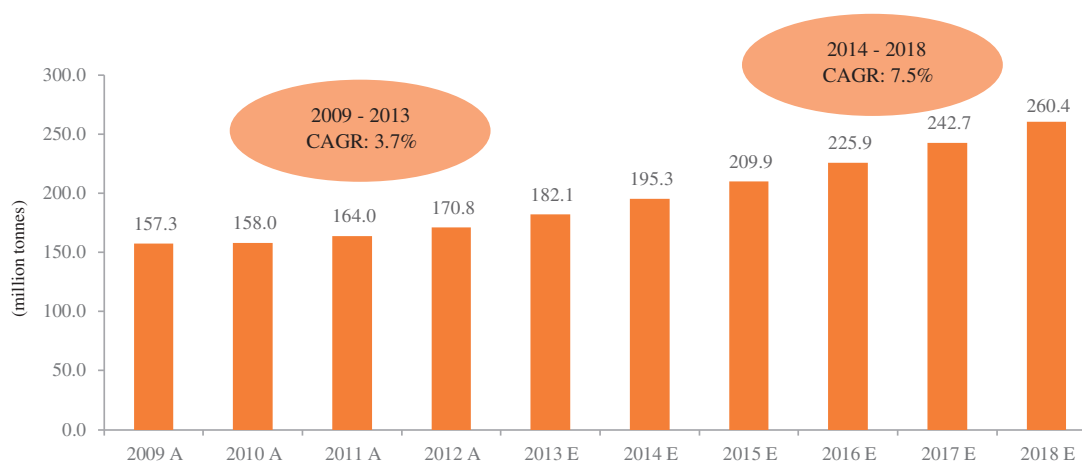
#### **Growth of MSW generation in China**

China’s large population inherently results in the generation of massive amount of MSW. Factors such as increasing rate of urbanisation, robust growth in GDP and increasing affluence and consumer spending, result in an increase in the generation of MSW.

From 2009 to 2013, the amount of MSW collected and transported in China had grown at a CAGR of 3.7%. With the further urbanisation process of China, MSW collected and transported in 2013 was estimated by Euromonitor to reach 182.1 million tonnes. Euromonitor predicts that MSW collected and transported will grow at a CAGR of 7.5% from 2014 to 2018 and reach 260.4 million tonnes by 2018.

## INDUSTRY OVERVIEW

### Annual MSW collected and transported, and the Growth Rate in China

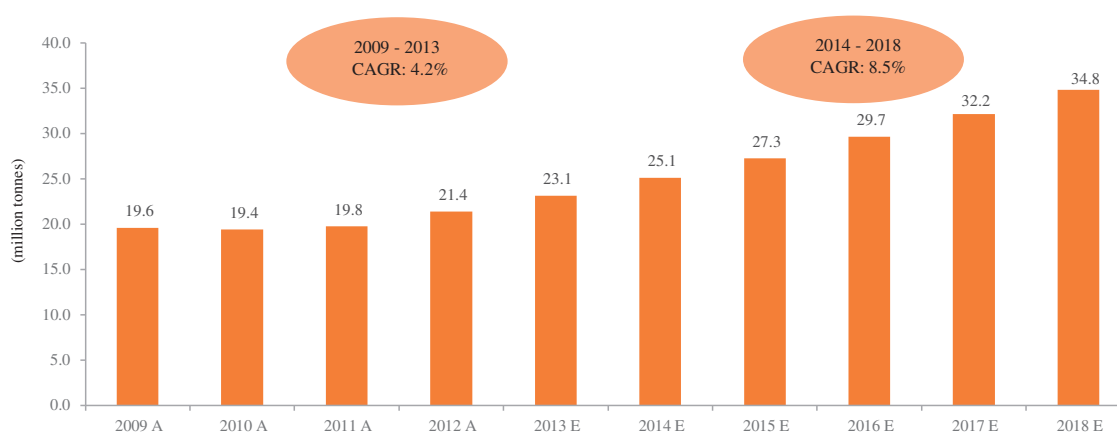


Source: National Bureau of Statistics of China and Euromonitor estimates from trade interview and desk research

### Growth of MSW generation in Guangdong Province

As of 2013, Guangdong has the largest GDP and population in China by province and is projected to continue its rapid growth in urbanisation. From 2009 to 2013, the amount of MSW collected and transported in Guangdong had grown at a CAGR of 4.2%, which was higher than the national average of 3.7%. In 2013, the total amount of MSW collected and transported in Guangdong was estimated by Euromonitor to reach around 23.1 million tonnes, or 12.7% of China’s total MSW collected and transported. With further urbanisation of Guangdong, MSW collected and transported is predicted to grow at a CAGR of 8.5% from 2014 to 2018, which is higher than the national total of 7.5%, and reach 34.8 million tonnes by 2018.

### Annual MSW Collected and Transported, and the Growth Rate in Guangdong



Source: Guangdong Bureau of Statistics and Euromonitor estimates from trade interview and desk research



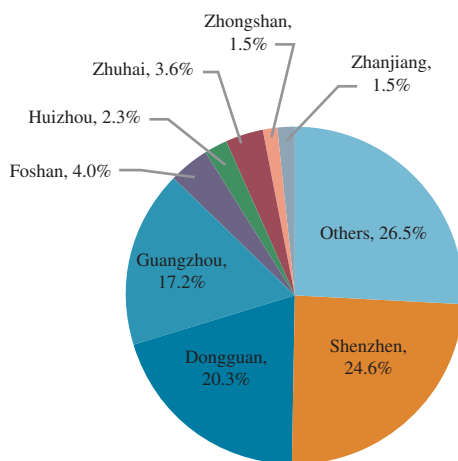
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Within Guangdong Province, Dongguan is the second largest MSW-collecting city and accounted for 20.3% of Guangdong’s total in 2011, while Zhanjiang accounted for 1.5% in the same period.

### Annual MSW Collected and Transported in Guangdong by City Breakdown, 2011



Source: Bureau of Statistics of Guangdong and Euromonitor estimates from trade interview and desk research

### Overview of MSW innocuous treatment in China and Guangdong Province

The innocuous treatment of MSW is to dispose of municipal solid waste using advanced waste management technologies and methods to reduce negative environmental impact, and at the same time facilitate material recycling and reuse. Primary methods of this process include landfilling, composting and incineration.

- **Landfilling:** is to dispose of waste in a landfill involves burying the waste in a designated lot of land with post-treatment methods such as anti-leaking, leveling and compaction. A modern landfill usually has designs to treat gas, liquid leachate and vermin and prevent polluting underground water.
- **Composting:** is to stack waste into a pile and let it ferment at constant 70°C. Microbes inside the pile would decompose the organic matter into mulch or compost. After composting, waste would be turned into hygienic, odourless humus. This method is not only the solution to waste disposal, but also a way of resource recovery. However, a large compost pile would cause damages to the soil and underground water in the long term, so an ideal compost pile should not be too large.
- **Incineration:** is to combust organic matter in waste and reduce the volume of waste. Incineration and other high-temperature waste treatment systems are described as thermal treatment methods. Incinerators convert combustible waste materials into ash, steam and gas. Ash produced by incineration is mostly inorganic matter in the forms of solid residue or fine particles. Incineration plants need to remove gaseous pollutants and particulates from flue gas produced before emitting it to the atmosphere, while the rest of residual product can be used for other means such as building materials or can be disposed of in a landfill. The heat produced in the process of incineration can be used to generate electricity.

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## INDUSTRY OVERVIEW

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Waste management methods such as landfill, composting and recycling are unable to meet the robust demands for waste treatment arising from the rapid economic development and population growth in the PRC.

### *Advantages of incineration in innocuous treatment*

Within the primary waste disposal methods, incineration has the following advantages:

**Innocuous Treatment:** incineration can greatly decompose all hazardous substances in waste through high-temperature combustion. Meanwhile, incineration can reduce the impact of final disposal on the environment, such as liquid leachate and greenhouse gas generated by landfilling and composting.

**Reduce the Volume of Waste:** the incineration process can reduce the volume of waste by 95% and the weight by 75%-85%.

**Resource Recovery:** The heat from the incineration of waste can be used to generate electricity or supply heating. The process can be operated continuously without interference by the weather.

**Occupy smaller area of land:** a waste incineration plant covers a relatively small area of land and therefore can be built near the urban area. With increasingly limited new land supply, particularly in China’s eastern and coastal regions and metropolitan areas where land prices are soaring, a waste incineration project has clear advantages in terms of land cost.

### *Development of MSW treatment in China and Guangdong Province*

According to National Bureau of Statistics of China, the total non-hazardous MSW treatment amount in China was 144.9 million tonnes in 2012, achieving an innocuous treatment rate of 84.8%. Landfilling, incineration and other methods were accounted for 105.1 million tonnes, 35.8 million tonnes and 4.0 million tonnes, represented 72.6%, 24.7% and 2.7% of the total MSW non-hazardous treatment amount respectively.

Landfilling is the most common MSW non-hazardous treatment method in China, as it is the basic practice that requires little technological input and has the longest history of practice.

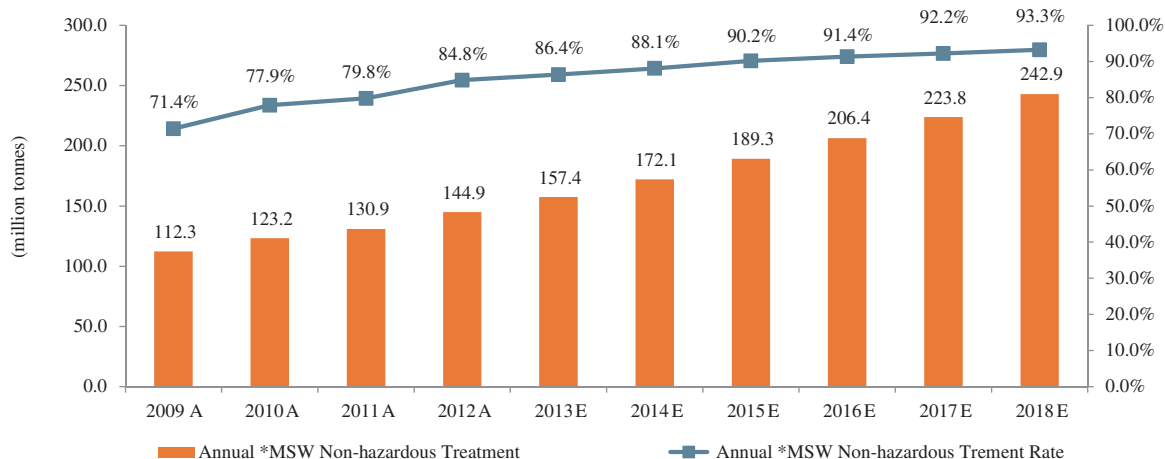
The use of incineration is fast growing, as its advantages were increasingly being recognised. Euromonitor estimated that over the 2013 to 2018 period, boosted by favourable government policies and because of its cost-efficient benefits, incineration is predicted to maintain the strongest momentum amongst other MSW treatment method with a CAGR up to 23.0% to reach 123.7 million or around 50% of total tonnes by 2018.

Euromonitor estimated that total amount of MSW non-hazardous treated reached 157.4 million tonnes in 2013, and the innocuous treatment rate will reach 86.4%, with around 27.9% through incineration. Based on the National Twelfth Five-Year Plan for Construction of MSW Innocuous

## INDUSTRY OVERVIEW

Treatment Facilities (“十二五”全國城鎮生活垃圾無害化處理設施建設規劃) (“12th Five-Year Plan”) issued by the State Council in April 2012, by 2015, China plans to have an innocuous waste treatment rate of above 90% with approximately 35% through incineration and the rate of incineration in eastern area plans to reach over 48%.

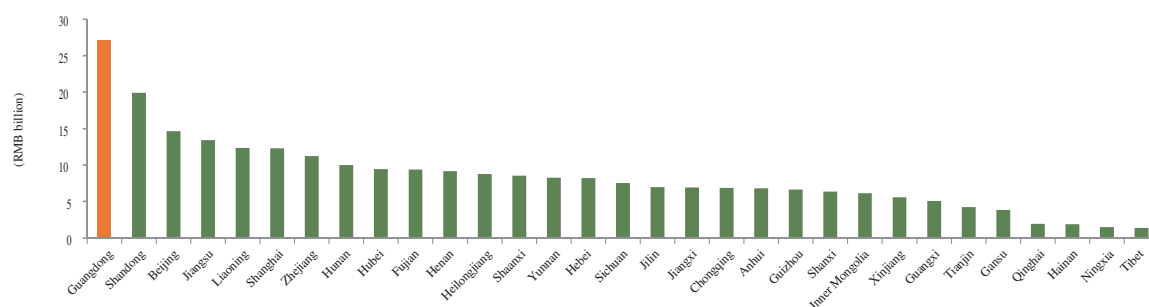
### Annual MSW Non-hazardous Treatment and the Non-hazardous Treatment Rate in China



Source: National Bureau of Statistics of China, the 12th Five-Year Plan and Euromonitor estimates from trade interview and desk research

According to the 12th Five-Year Plan, the Guangdong local government is expected to rank top among all provinces in the PRC in terms of investing resources in MSW Treatment during the period from 2010 to 2015.

### Budgeted Investment in MSW Treatment for the 12th Five-Year Plan by Province

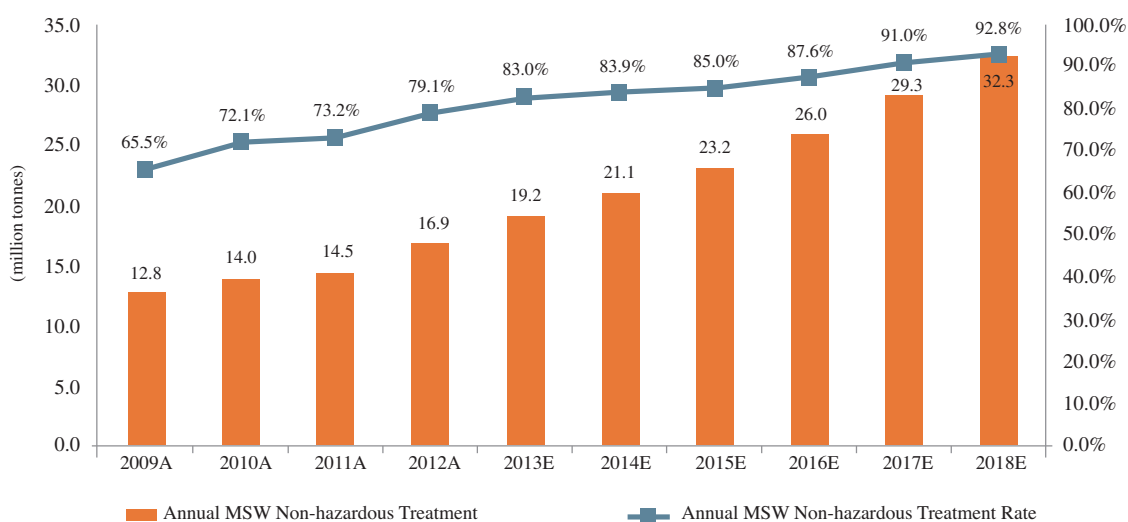


Source: State Council

## INDUSTRY OVERVIEW

The data from the National Bureau of Statistics of China revealed that the total amount of MSW treatment in Guangdong Province was 16.9 million tonnes in 2012, achieving an innocuous treatment rate of 79.1% with 29.3% through incineration. Based on the 12th Five-Year Plan of Guangdong province, the innocuous treatment rate is planned to reach 85% by 2015. The innocuous treatment rate in Pearl River Delta region is expected to reach over 90%, and the rate of Guangzhou and Shenzhen will reach 100% by 2015. Estimated by Euromonitor, there will be 55 WTE plants in operation by 2015, with daily processing capacity expected to reach 41,493 tonnes, which is around 1.8 times of current capacity.

### Annual MSW Non-hazardous Treatment and the Non-hazardous Treatment Rate in Guangdong



*Source:* National Bureau of Statistics of China and Euromonitor estimates from trade interview and desk research

Typically, MSW produced are treated in the same city where they are produced. However, it is possible for a waste collector to collect waste in one city but dispose it in another within the same province, subject to negotiations of the relevant two cities at the provincial level. Factors taken into consideration typically include geographic proximity and waste treatment capacity.

## OVERVIEW OF WTE INDUSTRY IN CHINA AND GUANGDONG PROVINCE

According to the Euromonitor Report, during the period from 2009 to 2013, the number of WTE plants in the PRC increased from 93 to 170, whilst the number of WTE plants in Guangdong Province increased from 17 to 20. During the same period, the daily waste processing capacity of the WTE plants in the PRC increased from 71,300 tonnes to 148,000 tonnes whilst that in the Guangdong Province increased from 13,000 tonnes to 23,000 tonnes.

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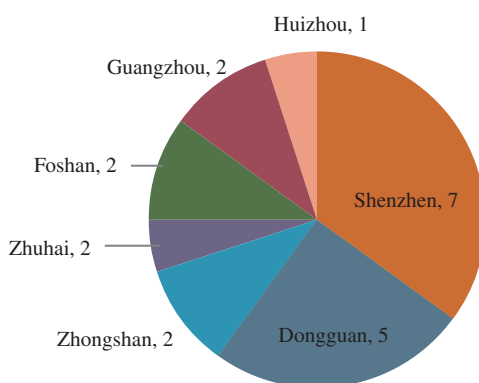
## INDUSTRY OVERVIEW

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As of the end of 2013, Guangdong’s daily waste incineration capacity was approximately 23,000 tonnes, representing 15.5% of China’s total waste incineration capacity. Encouraged by government policies, daily waste processing capacity of all WTE plants in China is expected to expand and increase by around 106.0% from 2013, to reach 304,900 tonnes in 2015. The daily waste incineration capacity in Guangdong is expected to grow by approximately 29,750 tonnes from 2010 to 2015 at a CAGR of approximately 28.7%. In 2015, Guangdong is expected to have the largest waste incineration capacity amongst all provinces and direct-controlled municipalities in China, reaching approximately 41,493 tonnes per day, with the number of WTE plants expected to reach 55 in total.

As of 2013, Shenzhen and Dongguan had the largest number of WTE plants in Guangdong, with seven and five plants in commercial operation, respectively. Most of the planned waste incineration and power generation plants are located in the Guangzhou, Zhongshan, Shenzhen and Dongguan.

### WTE Plants in Guangdong as of 2013



*Source: Euromonitor estimates from trade interview and desk research*

### Competitive landscape in China and Guangdong Province

As of 2013, there were 170 WTE plants in China. According to the Euromonitor Report, the top 15 players, in terms of daily MSW processing capacity, accounted for over 98,400 tonnes by the end of 2013, representing 66.5% of the nation’s total capacity. Since 2010, leading players have launched a series of expansion plans and saw dynamic capacity growth. With the expanded capacity and through the use of advanced equipment and technology by the leading players, a higher degree of market concentration has been observed. It is expected that China’s WTE industry will see a higher rate of market concentration towards large-scale players.

As of 2013, there were 20 WTE plants in Guangdong, operated or owned by approximately 12 WTE operators or investment groups. According to the Euromonitor Report, the top 10 players, in terms of daily MSW processing capacity, had a total of 19,590 tonnes by the end of 2013, representing 85.2% of the province’s total capacity. In 2013, the Group was ranked the second largest WTE

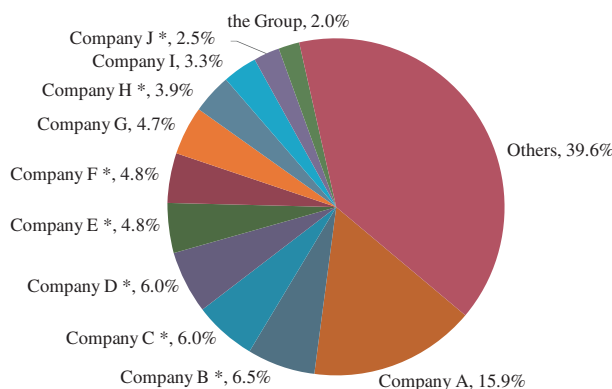
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## INDUSTRY OVERVIEW

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provider in Guangdong Province and the 11th largest WTE provider in the PRC, and out of all non-State-owned background enterprises, the Group was ranked the largest WTE provider in Guangdong Province and the fourth largest WTE provider in the PRC, with a daily MSW processing capacity of 3,000 tonnes in total.

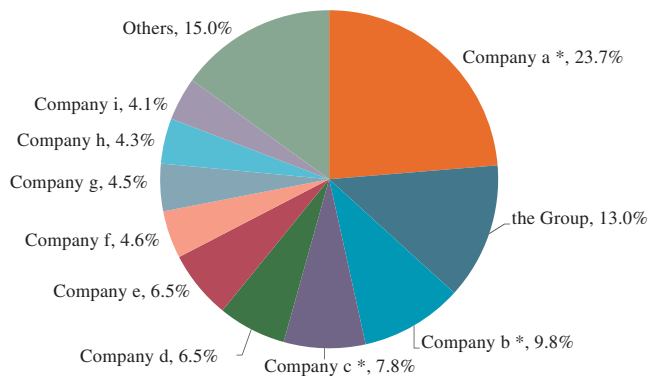
**WTE Companies in the PRC by Daily MSW Processing Capacity, 2013E**



\*: State-owned background entity

Source: Euromonitor estimates from trade interviews and desk research

**WTE Companies in Guangdong by Daily MSW Processing Capacity, 2013E**



\*: State-owned background entity

Source: Euromonitor estimates from trade interview and desk research

Shenzhen and Dongguan are the regional front-runners in terms of WTE developments, with seven and five WTE plants in commercial operation as of the end of 2013 respectively. The five WTE plants in Dongguan are Eco-tech WTE Plant (1,200 tonnes), Kewei WTE Plant (1,800 tonnes), China Scivest (1,800 tonnes) and Phase one (600 tonnes) & Phase two (900 tonnes) of another WTE Plant, which is owned and operated by a private company. Meanwhile other cities such as Zhanjiang see much untapped potential as there is no WTE plant in commercial operation.

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## INDUSTRY OVERVIEW

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The WTE market in China poses high entry barrier in terms of high investment costs and proven track record. Therefore, companies with sound experience in operation, technology and environmental protection are more likely to build on current success, and a higher degree of market concentration will be expected in foreseeable future.

### *High barrier to entry in the Chinese WTE industry*

According to the Euromonitor Report:

**High Investment Costs:** the investment for a BOT WTE plant is estimated to be in the range of RMB350,000 to RMB400,000 per tonne, excluding costs for land use rights and other preliminary expenses for land preparation and environmental impact evaluation. A WTE plant with a daily handling capacity of 1,000 tonnes requires more than RMB300 million investment, and about 50% of which is for equipment. For a BOT WTE plant, paid-up capital is normally 20% to 30% of its total investment, while the remainder can be funded through project financing in the form of term loan.

**Proven Track Record:** The operation of WTE project requires project management expertise and adequate project operation experience, such as the transportation and collection of MSW to WTE plants, generation of electricity and adherence to environmental standard. As such, it is difficult for a new entrant without adequate project experience and management expertise to enter into this market.

### **Government policies on waste treatment fees and preferential tariff**

A WTE plant’s revenue includes waste treatment fees and sale of electricity, heat and waste residues. Value-added tax on sale of electricity and heat is refundable. Business tax is not levied on waste treatment fees.

- **Electricity supply price:** according to the Notice on Prices of Waste-Generated Electricity (applicable to projects approved after the year of 2006) (關於完善垃圾焚燒發電價格政策的通知), for all WTE plants approved on or after 1 January 2006, the amount of on-grid electricity generated shall be based on the amount of MSW processed. The on-grid tariffs for the first 280 kWh of power generated by every tonne of waste shall be RMB0.65 per kWh (VAT inclusive), and any additional power output shall be charged at the same rate as that for coal power projects in neighbouring areas.
- **Waste treatment fees:** Typically, waste treatment arrangement between the WTE operator and the waste collector is negotiated with local sanitation departments or companies contracted by local sanitation departments. For example, a WTE plant in Shanghai receives a waste treatment fee as high as RMB200 per tonne while WTE plants in Dongguan receive a waste treatment fee of RMB110 per tonne. Local governments usually consider a WTE operator’s track record, processing capacity, incineration technology employed and environmental performance in the decision-making process. In Dongguan, the unit price for waste treatment fees is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to

## **INDUSTRY OVERVIEW**

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time. The waste treatment fees charged by our WTE plants increased during the Track Record Period. The waste treatment fee for our Eco-Tech WTE Plant and Kewei WTE Plant was increased by the Dongguan Price Bureau from RMB89 to RMB110 per tonne starting from 1 June 2013, which was still the applicable price for our existing WTE plants in Dongguan as at the Latest Practicable Date.

For further details, please refer to the section headed “Regulatory overview — Major regulatory requirements for the WTE plants — Waste treatment fees”.

- **Tax Incentives:** The Notice on Value-Added Tax Policies for Comprehensive Utilisation of Resources and other Products (Tax [2008] No.156) (關於資源綜合利用及其他產品增值稅政策的通告) allowed value-added tax refund for sales of certain self-produced products, including electricity and heat generated from waste incineration. For a waste incineration plant to qualify for this rule of tax relief, the waste it uses should account for at least 80% of the total amount of fuel used to generate electricity, and its emissions must meet either GB13223-2011 or GB18485-2014 standards.

### **Social and Environmental Impact**

In November 2001, the Ministry of Environmental Protection and General Administration of Quality Supervision, Inspection and Quarantine jointly issued the Standards for Pollution Control of Waste Incineration (GB18484-2001), mandating the criteria for site selection of waste incineration plants, market entry requirements, technical specifications of incinerators and limits of pollutant emission for incineration plants. Specifically, the standards capped the emission of dioxin at waste incineration plants nationwide at 1.0 ngTEQ/m<sup>3</sup>.

In November 2010, the Ministry of Environmental Protection published a modified draft version of the national standards for pollution control of waste incineration to solicit public opinion. The new draft imposed even tighter restrictions on emissions of air pollutants, including limiting the emission of dioxin to 0.1 ng TEQ/m<sup>3</sup>, which was in line with E.U. standards.



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## INDUSTRY OVERVIEW

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### Incineration technology and equipment overview

The mainstream incinerator types adopted in China are moving grate and fluidised bed. Geographically, incinerators in municipalities and eastern provinces are mostly moving grate incinerators with imported technologies, and those in central and Northern provinces are mostly domestically made fluidised beds incinerators.

	<b>Moving Grate</b>	<b>Fluidised Bed</b>
<b>Description of process</b>	Waste is introduced by a waste crane through the “throat” at one end of the grate, from where it moves down the descending grate (sectioned as drying, combustion and complete combustion) to the ash pit on the other end.	The furnace is filled with a bed of quartz sand that is heated to over 600 °C. A strong airflow heated to over 200 °C is supplied through the bottom of the furnace, separating the sand particles to let the air through, and then the waste is introduced. The waste and sand will then be mixed and churned to combust the waste.
<b>Heating Value of Waste</b>	1,200 kcal/kg (5,040 kJ/kg) and above	800 kcal/kg (3,360 kJ/kg) and above
<b>Auxiliary Fuel</b>	nil (Diesel to ignite incinerator)	Coal (Diesel to ignite incinerator)
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Mature technology adopted worldwide;</li> <li>• Lower requirements of waste’s composition and solid mass;</li> <li>• Lower requirement for waste pretreatment;</li> <li>• Lower fly ash production;</li> <li>• Easier to operate;</li> <li>• Lower cost of operation;</li> <li>• More stable in operation.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower initial investment;</li> <li>• Higher waste combustion efficiency;</li> <li>• Longer service life;</li> <li>• Higher heat efficiency.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Higher initial investment;</li> <li>• Higher requirement on maintenance;</li> <li>• Core technology relies on imports;</li> <li>• Higher heat resistance requirement on incinerator;</li> <li>• Lower waste combustion efficiency;</li> <li>• Larger volume of facility.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher requirement on waste pretreatment;</li> <li>• More fly ash production;</li> <li>• More difficult to operate;</li> <li>• Shorter duration of full load operation;</li> <li>• Higher cost of operation due to requirement on auxiliary fuel.</li> </ul>

*Source: Euromonitor compiled from desk research*

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## **INDUSTRY OVERVIEW**

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Due to the complexity of waste incineration technology, large-scale moving grate incinerators currently in use in China are mostly imported, hence the high cost of investment, but imported grate incinerators enjoy advantages in operation stability and simple waste pre-treatment.

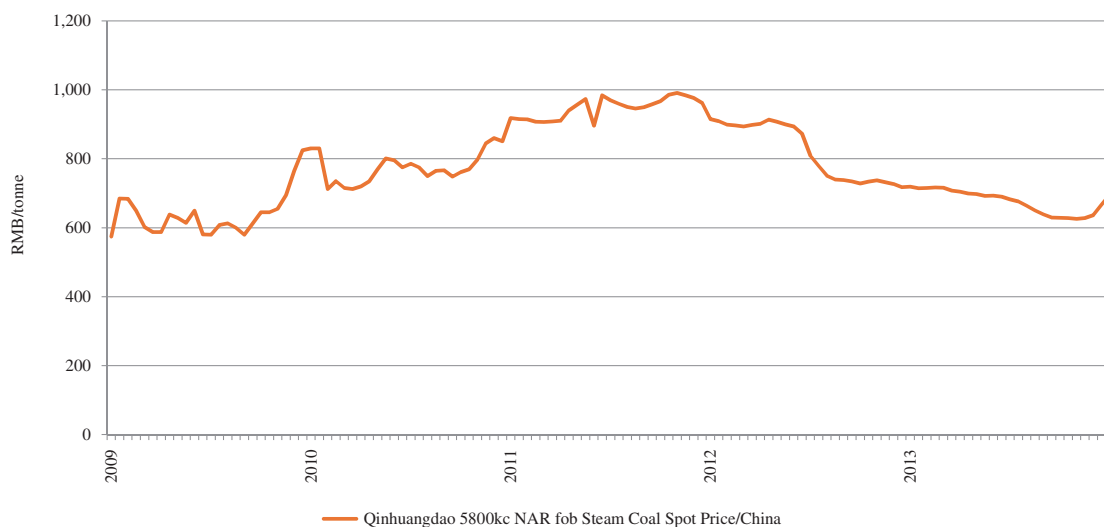
### **HISTORICAL PRICE TREND OF RAW MATERIALS**

#### **Coal**

During the Track Record Period, the primary procurement of our WTE business was coal, which our Eco-Tech WTE Plant historically required as its auxiliary fuel before its Technological Upgrade. During the Track Record Period, coal procurement represented the largest portion of the total purchase of our Group. As a result of the Technological Upgrade of our Eco-Tech WTE Plant, we no longer use coal as an auxiliary fuel for any of our WTE Plants.

The diagram below shows the spot price of steam coal for 5,800 kc Net At Received FOB Spot Price at Qinhuangdao Port from 2009 to 2013.

**Qinhuangdao 5800kc Net At Received FOB Steam Coal Spot Price, 2009 to 2013**



Source: Bloomberg

#### **MSW**

When a WTE plant is in operation, there is minimal cost for raw materials as MSW is generally supplied by the local governmental entities who pay the operator of the WTE plant a fee for handling and treating the waste. For further details of the waste treatment fees collected by our Group, please refer to the section headed “Business — Business model — Our sources of revenue — Waste treatment fees”.

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## HISTORY AND DEVELOPMENT

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### HISTORY

Our Group’s history traces back to June 2003 when Mr. KM Lai, currently an executive Director and the deputy chairman of our Company, founded Eco-Tech with the funding support of his father-in-law.

The following sets forth the key milestones of our Group since our establishment in June 2003:

<b>Year</b>	<b>Key milestones</b>
2003	Eco-Tech, the first principal subsidiary of our Group, was established
2004	The construction of our Eco-Tech WTE Plant commenced with the approval by Guangdong DRC
2007	Eco-Tech WTE Plant commenced commercial operation, with installed MSW processing capacity of 1,200 tonnes per day and installed power generation capacity of 36MW
2009	Kewei, the second principal subsidiary of our Group, was established
2010	The construction of our Kewei WTE Plant commenced with the approval from Guangdong DRC  Kewei obtained a Commendation of Key Construction (重點建設項目獎狀) by the Dongguan Municipal People’s Government
2012	Kewei WTE Plant commenced commercial operation, with installed MSW processing capacity of 1,800 tonnes per day and installed power generation capacity of 30MW
2013	Our Group, together with High Point, was awarded the bid for Zhanjiang Project and entered into the BOT bidding contract for Zhanjiang Project with Zhanjiang DRB  Zhanjiang Yuefeng, the third principal subsidiary of our Group, was established  Zhanjiang Yuefeng entered into the Zhanjiang Concession Agreement with Zhanjiang DRB  Kewei obtained the ISO 14001 Environment Management System Certificate
2014	After years of organic growth, our Group acquired China Scivest, which has an installed MSW processing capacity of 1,800 tonnes per day and an installed power generation capacity of 42MW  Our Eco-Tech WTE Plant commenced the Technological Upgrade, and is scheduled to re-commence trial operation after the completion of its Technological Upgrade in the third quarter of 2015  Work on our Zhanjiang Project commenced pursuant to the EPC Contract  China Scivest re-commenced commercial operation after the Technological Upgrade

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## HISTORY AND DEVELOPMENT

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### CORPORATE HISTORY OF OUR PRINCIPAL SUBSIDIARIES

As at the Latest Practicable Date, our Company has indirect interests in the following principal subsidiaries, particulars of which are set out below:

Name of subsidiary	Date of establishment	Registered and paid-up capital	Attributable interest to our Company	Principal activities
Eco-Tech	19 June 2003	RMB120,000,000	100%	Waste incineration power generation
Kewei	13 February 2009	RMB160,000,000	100%	Waste incineration power generation
Zhanjiang Yuefeng	3 April 2013	RMB150,000,000	55%	Waste incineration power generation (Note)
China Scivest	5 November 2004	RMB110,000,000	100%	Waste incineration power generation

*Note:* As at the Latest Practicable Date, our Zhanjiang WTE Plant is still under development.

The following sets forth the respective corporate history of our principal subsidiaries since their respective dates of incorporation.

For further information on our subsidiaries in the PRC, please refer to the paragraph headed “B. Further information about the business — 3. Information about the PRC subsidiaries of our Group” in Appendix VI to this [Redacted].

#### ***Eco-Tech***

Eco-Tech was established in the PRC on 19 June 2003, with an initial registered capital of RMB10,000,000, which was held as to 75% by Canvest Investments and as to 25% by Hengli Real Estate. The initial registered capital of Eco-Tech was paid up in cash. On 24 July 2003, Eco-Tech increased its registered capital from RMB10,000,000 to RMB60,000,000, which was subscribed as to RMB9,000,000 by Canvest Investments, RMB12,500,000 by Hengli Real Estate, RMB16,500,000 by Shunxing Petro and RMB12,000,000 by Mr. Zhu Jianbin (朱建彬). Such capital increase was made by way of injection of cash and land use rights. Upon completion of the capital injection, Eco-Tech was owned as to 27.5% by Canvest Investments, as to 25% by Hengli Real Estate, as to 27.5% by Shunxing Petro and as to 20% by Mr. Zhu Jianbin.

As at 19 June 2003, the date of incorporation of Eco-Tech, the equity interest of Canvest Investments was held as to 80% by Mr. KM Lai and as to 20% by a relative of Mr. KM Lai. The sole ultimate beneficial owner of Shunxing Petro was Mr. KM Lai’s mother. Hengli Real Estate is principally engaged in real estate development and sale of properties in the PRC. Each of Hengli Real Estate and Mr. Zhu Jianbin is an Independent Third Party.

## **HISTORY AND DEVELOPMENT**

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On 23 January 2007, Shunxing Petro and Canvest Investments entered into an equity transfer agreement, under which Shunxing Petro transferred its entire equity holding in Eco-Tech to Canvest Investments at a consideration of RMB16,500,000, which was based on the then registered capital of Eco-Tech. Registration of this transfer with the Dongguan Administration for Industry & Commerce was completed on 7 March 2007. Upon completion of the said transfer, Eco-Tech was owned as to 55% by Canvest Investments, as to 25% by Hengli Real Estate and as to 20% by Mr. Zhu Jianbin.

Canvest Investments, CPNE and Sky Excel Group Limited (“**Sky Excel**”, a wholly owned subsidiary of CPNE), amongst others, entered into an agreement dated 9 May 2007 (“**2007 CPNE Agreement**”) on the sale and purchase of 40% effective interests in Eco-Tech. Pursuant to the 2007 CPNE Agreement, Sky Excel agreed to pay a total consideration of HK\$122,000,000 (the “**2007 CPNE Consideration**”), which was settled as to HK\$80,000,000 by way of cash and as to the remainder of HK\$42,000,000 by way of issue of 60,000,000 new shares in CPNE. The 2007 CPNE Consideration was arrived at after arm’s length negotiations between the parties with reference to, among other things, the unaudited net assets value of Eco-Tech, the profitability of Eco-Tech, as well as the potential value of Eco-Tech as an environment-friendly power generation project. The 2007 CPNE Consideration was fully settled, and completion of the 2007 CPNE Agreement took place on 1 August 2007 following the approval by Foreign Trade and Economic Cooperation Department of the Guangdong Province on 30 July 2007.

Given nearly one-third of the 2007 CPNE Consideration comprises shares in CPNE, which is subject to a lock-up of six months, Canvest Investments did not wish to expose itself to any market volatility and market risks of holding such shares. As such, Canvest Investments and Mr. KL Lee agreed that, among other things, Mr. KL Lee would, through his wholly owned company, receive the 2007 CPNE Consideration (including 60,000,000 new shares in CPNE) from Sky Excel under the 2007 CPNE Agreement and Mr. KL Lee would pay HK\$110,000,000 in cash to Canvest Investments.

Upon completion of the 2007 CPNE Agreement, Eco-Tech was owned as to 15% by Canvest Investments, 40% by Daygain Enterprises Limited (at that time wholly owned by CPNE), 25% by Hengli Real Estate and 20% by Mr. Zhu Jianbin.

CPNE is a company listed on the Stock Exchange (stock code: 0735) and is an Independent Third Party. Canvest Investments considered the transaction to be in the interests of Eco-Tech, as, among other things, being part of a publicly listed group, Eco-Tech may have access to the capital market for funding which may not be otherwise available to a private enterprise.

With a view to convert the Eco-Tech WTE Plant by adopting the moving grate incineration technology through a technological upgrade, and in order to maximise managerial and operational synergy between Eco-Tech and Kewei, the following transactions have been undertaken by Mr. KM Lai to acquire the entire equity interests in Eco-Tech.

- (1) Ample Forest (which was then wholly owned by Mr. KM Lai) entered into an agreement dated 15 July 2011 (“**2011 CPNE Agreement**”) with Sky Excel, and Power Will Investment Limited (“**Power Will**”, which was then wholly owned by Mr. KL Lee) to acquire 100% issued share capital of Worldtron Limited, which indirectly held 40% equity interests in Eco-Tech, and shareholder’s loan to Worldtron Limited of approximately HK\$25.7 million, at a consideration of RMB192,000,000.

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## HISTORY AND DEVELOPMENT

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The consideration was arrived at after arm’s length negotiations between the parties with reference to, among other things, the consolidated net assets value of Worldtron Limited and the future prospect of the business of Eco-Tech. The consideration of RMB192,000,000 payable to Sky Excel was required under the 2011 CPNE Agreement to be satisfied by the transfer of 10.1% effective interest in Dongguan China Power New Energy Heat and Power Company Limited (東莞中電新能源熱電有限公司) (“**Dongguan Heat and Power**”). To facilitate this transfer, Ample Forest acquired the 10.1% interest in Dongguan Heat and Power from Power Will at the cash consideration of RMB192,000,000. CPNE held 80% of Dongguan Heat and Power prior to the transaction and 90.1% upon completion of the same.

According to Mr. KM Lai, the parties agreed to the above arrangements after taking into account factors including the specific requirement of CPNE that it would only agree to dispose of its 40% effective interest in Eco-Tech to Ample Forest if CPNE could further consolidate its control and profits in Dongguan Heat and Power by acquiring 10.1% interest in Dongguan Heat and Power, and Mr. KL Lee (through Power Will) was willing to facilitate such transaction with a consideration of RMB192,000,000. The acquisition of Worldtron Limited by Ample Forest was completed on 17 October 2011.

- (2) World Honour, which was wholly owned by Mr. KM Lai, entered into equity transfer agreements with Hengli Real Estate and Mr. Zhu Jianbin to acquire 25% and 20% equity interests in Eco-Tech, on 14 November 2011 and 15 November 2011, respectively. Registration of these transfers with the local administration for industry and commerce office was completed on 29 November 2011. Brief particulars of the equity transfer agreements are set out below:

<b>Transferor</b>	<b>Transferee</b>	<b>Percentage of equity interest transferred</b>	<b>Consideration</b>	<b>Date of settlement of consideration</b>
Hengli Real Estate	World Honour	25%	RMB21,300,000	13 January 2012
Mr. Zhu Jianbin	World Honour	20%	RMB17,040,000	8 February 2012

The consideration was reached at after arm’s length negotiations between the parties. As confirmed by Mr. KM Lai, who was the then sole ultimate beneficial owner of World Honour, Hengli Real Estate and Mr. Zhu Jianbin intended to exit from their investments in Eco-Tech, as Eco-Tech was contemplating, subject to relevant government approval, technological upgrade which was expected to require capital investments of more than RMB450,000,000 and the relevant shareholders were not interested in contributing additional capital or providing guarantee to secure the necessary financing. As such, they agreed to a lower consideration as compared to that at which Ample Forest acquired the 40% effective interest in Eco-Tech in July 2011.

## **HISTORY AND DEVELOPMENT**

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- (3) World Honour, which was wholly owned by Mr. KM Lai, entered into an equity transfer agreement with Canvest Investments to acquire 15% equity interests in Eco-Tech on 15 November 2011 at a consideration of RMB12,780,000. Registration of the transfer with the local administration for industry and commerce office was completed on 29 November 2011. The consideration was settled on 8 February 2012.

Since 17 October 2011, Eco-Tech has been accounted for as a subsidiary of our Group. The registered capital of Eco-Tech was increased from RMB60,000,000 to RMB120,000,000, which was paid up in cash by World Honour on 28 July 2014.

### ***Kewei***

Kewei was established in the PRC on 13 February 2009, with an initial registered capital of RMB100,000,000, which was held as to 100% by Canvest Investments. Canvest Investments paid up the initial registered capital in cash on 10 February 2009.

The registered capital of Kewei was increased from RMB100,000,000 to RMB160,000,000 in 2010. The newly increased registered capital had been paid up in cash by Canvest Investments on 23 June 2010. The registered capital of Kewei has remained unchanged since then.

As a step by Mr. KM Lai to focus on the waste incineration industry and maximise managerial and operational synergy between Eco-Tech and Kewei, World Prosperous, which was then indirectly wholly owned by KM Lai through Ample Forest, entered into an agreement with Canvest Investments in August 2011. Under such agreement, World Prosperous agreed to acquire 100% equity interest in Kewei from Canvest Investments in consideration of RMB160,000,000. The consideration represented the then registered capital of Kewei. Approval by Foreign Trade and Economic Cooperation Department of Guangdong Province was obtained on 9 October 2011 and registration with the Dongguan Administration for Industry and Commerce was completed on 12 October 2011.

Throughout the Track Record Period and as of the Latest Practicable Date, Kewei has been accounted for as a subsidiary of our Group.

### ***Mr. KM Lai's disposal of Canvest Investments and acquisition of Eco-Tech and Kewei in 2011***

In 2011, with a view to focus on the management of Eco-Tech and Kewei, Mr. KM Lai decided to divest his other investments (such as water treatment, micro financing and properties development) held through Canvest Investments by disposing of his entire equity interest in Canvest Investments to Mr. Guo Huiqiang, a cousin of Mr. KM Lai. About the same time, Mr. KM Lai entered into agreements to acquire, through wholly owned companies, from Canvest Investments its equity interests in Eco-Tech and Kewei.

Pursuant to an agreement dated 12 August 2011, World Prosperous, which was wholly owned by Mr. KM Lai, agreed to acquire the entire equity interest in Kewei from Canvest Investments. The transfer was completed on 12 October 2011. Further information of the transfer was set out in “—Kewei” above.

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## HISTORY AND DEVELOPMENT

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Pursuant to an agreement dated 22 August 2011, Mr. KM Lai, who then held 70% equity interests in Canvest Investments, agreed to acquire the remaining 30% equity interests in Canvest Investments from Shunxing Petro. The transfer was completed on 24 August 2011.

Pursuant to an agreement dated 20 September 2011, Mr. KM Lai agreed to dispose of the entire equity interests in Canvest Investments to Mr. Guo Huiqiang at a consideration determined with reference to the then net assets value of the relevant businesses. Upon completion of such transfer, Mr. Guo Huiqiang held the entire equity interests in Canvest Investments. The transfer was completed on 21 September 2011.

Pursuant to an agreement dated 15 November 2011, World Honour, which was also wholly owned by Mr. KM Lai, agreed to acquire 15% equity interests in Eco-Tech from Canvest Investments. The transfer was completed on 29 November 2011. Further information of the transfer was set out in “—Eco-Tech” above.

As such, (1) Mr. KM Lai disposed of the entire equity interests in Canvest Investments on 21 September 2011, (2) Mr. KM Lai, through World Honour, acquired 15% equity interests in Eco-Tech from Canvest Investments on 29 November 2011 and (3) Mr. KM Lai, through World Prosperous, acquired the entire equity interests in Kewei from Canvest Investments on 12 October 2011. As confirmed by Mr. KM Lai and Mr. Guo Huiqiang in writing, during the interim period between 21 September 2011 and 29 November 2011 (in the case of Eco-Tech, both dates inclusive) and the interim period between 21 September 2011 and 12 October 2011 (in the case of Kewei, both dates inclusive) (each of which an “**Interim Period**”), it was the commercial agreement and arrangement of the parties that the economic interest and control over the financial and operating policies in Eco-Tech and Kewei held through Canvest Investments during the respective Interim Periods remained with Mr. KM Lai.

### *Zhanjiang Yuefeng*

Eco-Tech, Kewei and High Point jointly bid as a consortium in September 2012 for the right to invest, construct, operate and manage the Zhanjiang daily waste incineration power plant. On 20 February 2013, the consortium entered into a bidding contract (中標合同書) with Zhanjiang DRB. Under such bidding contract, the consortium shall invest approximately RMB636,453,900 to build a waste incineration power plant in Zhanjiang, Guangdong Province.

On 3 April 2013, the consortium established Zhanjiang Yuefeng, a limited liability company, as the project company to undertake our Zhanjiang Project. The initial registered capital of Zhanjiang Yuefeng is RMB150,000,000. The shareholding structure of Zhanjiang Yuefeng is:

Shareholder	Amount contributed (RMB)	Holding in Zhanjiang Yuefeng
Eco-Tech	30,000,000	20%
Kewei	52,500,000	35%
High Point	67,500,000	45%



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High Point is principally engaged in industrial investment, enterprise investment consultancy service as well as trading business, and it invested in Zhanjiang Yuefeng as a financial investor. High Point and its ultimate controlling shareholder are Independent Third Parties. Similar to other WTE projects, given the Zhanjiang Project is a capital intensive project, having a capital rich consortium member will enhance our competitiveness of the bidding. Therefore, we cooperated with High Point which could contribute part of the investment amount of our Zhanjiang Project.

Each of Eco-Tech, Kewei and High Point contributed to the initial registered capital of Zhanjiang Yuefeng in cash. Eco-Tech and Kewei funded their respective contribution by way of internal resources.

The registered capital of Zhanjiang Yuefeng has remained unchanged since its establishment.

### ***China Scivest***

#### *Early developments*

China Scivest was established on 5 November 2004 by Independent Third Parties. The initial registered capital of China Scivest was RMB110,000,000, which was contributed by the initial shareholders in cash. The registered capital of China Scivest has remained unchanged since its establishment.

#### *Acquisition by Mr. KL Lee in 2011*

Under a sale and purchase agreement dated 13 May 2011, Wise Track Group Limited acquired from Palace View International Limited, an Independent Third Party, the entire issued share capital of China Green Power and the entire amount of shareholders' loan of approximately HK\$202,184,000 at a consideration of HK\$50,000,000. Wise Track Group Limited was wholly owned by Mr. KL Lee, the brother of Ms. Loretta Lee and brother-in-law of Mr. CT Lai. At the time of the transaction, China Green Power held the entire equity interest in China Scivest through Hong Tong Hai and Anabell.

As confirmed by Mr. KL Lee, the consideration was determined after arm's length negotiations between the parties taking into account factors including the net liabilities of China Green Power, amount of shareholder's loan and the financial performance of the subject group of companies at that time. The acquisition was completed on 13 July 2011.

Mr. KM Lai learnt about the opportunity to acquire the China Scivest project in early 2011. However, as he had already been in negotiation for the acquisition of Eco-Tech in contemplation of conducting a Technological Upgrade on the Eco-Tech WTE Plant and did not wish to undertake two capital intensive projects at the same time, Mr. KM Lai decided not to invest in the China Scivest project for the time being and referred the opportunity to Mr. KL Lee, who was also optimistic towards

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## **HISTORY AND DEVELOPMENT**

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the WTE industry in the PRC. However, Mr. KM Lai was willing to offer certain help to Mr. KL Lee including:

1. financial support in the form of security of land use right and corporate guarantees provided by Eco-Tech and Kewei in favour of certain banking facilities to China Scivest for a fee of HK\$273,000, HK\$548,000 and HK\$278,000 during the years ended 31 December 2011, 2012 and 2013, respectively, determined based on the value of such security and guarantee as agreed between the relevant parties; and
2. Mr. Yuan Guozhen, an executive Director and our chief executive officer, assisted China Scivest by facilitating its liaison with the relevant PRC government authorities in obtaining the relevant licences and approval process throughout the Technological Upgrade leveraging on Mr. Yuan’s experience in operating WTE plants and his network in the industry.

On 27 September 2011, Wise Track Group Limited transferred the entire issued share capital of China Green Power to Swift Ample, which was also wholly owned by Mr. KL Lee.

### *Acquisition by our Group in 2014*

To bolster our market position in Guangdong Province and to further increase our MSW processing capacity, we acquired the effective interest in China Scivest WTE Plant from Mr. KL Lee. Pursuant to a sale and purchase agreement dated 30 December 2013, Yi Feng agreed to purchase, and Mr. KL Lee agreed to sell, the entire issued share capital of Swift Ample at a consideration of RMB100,000,000.

The consideration was determined after arm’s length negotiations with reference to the agreed equity value of Swift Ample as of 31 December 2013, supported by independent valuation. The share transfer was completed on 1 January 2014 and the consideration was settled in full on 26 May 2014. Upon completion of the transfer of shares of Swift Ample, China Scivest became a wholly owned subsidiary of our Group on 1 January 2014.

### **SALE AND PURCHASE OF SHAREHOLDING INTEREST IN YI FENG IN 2012**

Yi Feng was incorporated on 3 May 2012, with Mr. KM Lai as the sole shareholder, as the holding company of our Group, which at that time comprised the entire equity interest in Eco-Tech and Kewei.

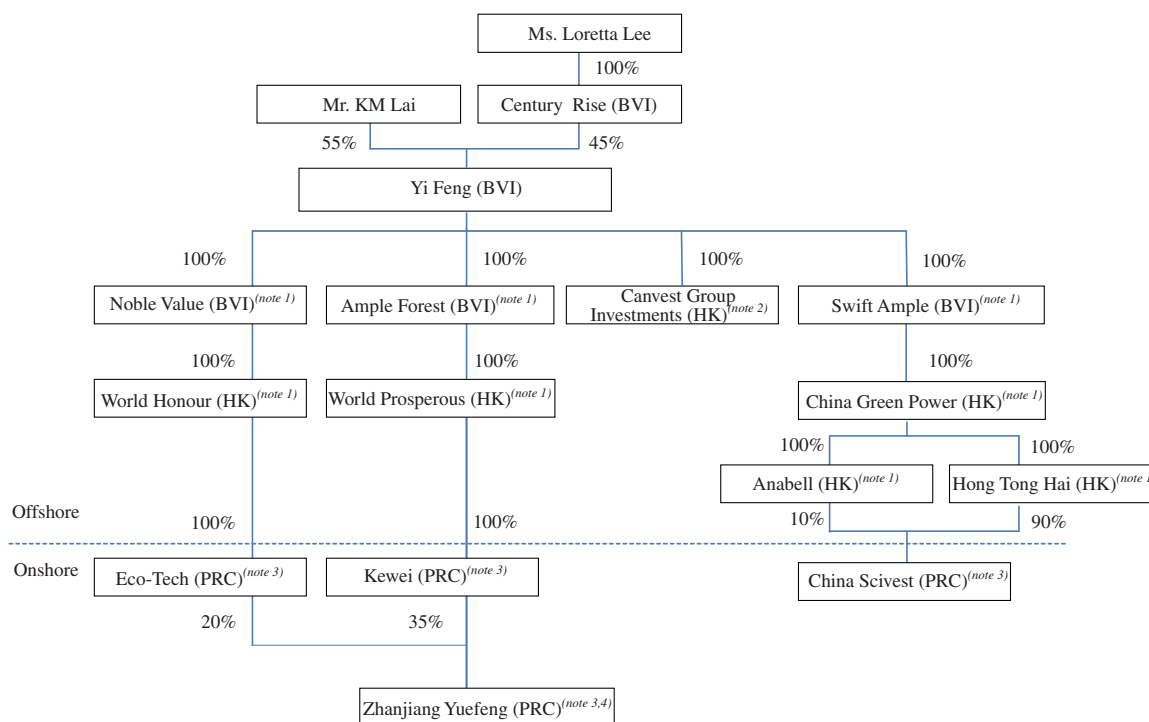
Mr. CT Lai has been one of the key senior management of our Group. He has been the legal representative, general manager and a director of Eco-Tech since August 2007. He was also the legal representative and a director of Kewei since its establishment and was its manager from 2009 to 2011. As a result of his experience in managing Eco-Tech and Kewei, Mr. CT Lai has formed a positive view on the business potentials of the Group. As such, Mr. CT Lai, after discussions with his wife Ms. Loretta Lee, decided to make an offer to Mr. KM Lai to acquire certain equity stake in our Group, which was accepted by Mr. KM Lai as he considered that it would be in the interest of our Group to introduce Mr. CT Lai, an important member of our Group’s senior management, as one of our Group’s

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shareholders, so as to better align his economic interest to that of our Group. As such, Mr. KM Lai and Century Rise, a company wholly owned by Ms. Loretta Lee, entered into a sale and purchase agreement on 29 June 2012. Under the agreement, Mr. KM Lai agreed to sell and Century Rise agreed to purchase 45% of the issued share capital of Yi Feng at a cash consideration of HK\$325,300,000. The consideration was determined after arm’s length negotiations, with reference to the agreed value of 45% of the equity interest in Eco-Tech and Kewei, the only principal subsidiaries of Yi Feng at that time, and was supported by independent valuation. The consideration was settled in full on 18 March 2013, and the transfer of shares of Yi Feng was completed on 29 June 2012.

### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE REORGANISATION

The following chart sets out our corporate and shareholding structure immediately before the Reorganisation:



*Notes:*

- (1) Noble Value, World Honour, Ample Forest, World Prosperous, Swift Ample, China Green Power, Anabell and Hong Tong Hai are investment holding companies with no other substantive business operations.
- (2) Canvest Group Investments is principally engaged in the provision of administrative services to other companies in our Group.
- (3) Eco-Tech, Kewei, Zhanjiang Yuefeng and China Scivest are principal subsidiaries of our Group.
- (4) The remaining 45% equity interest in Zhenjiang Yuefeng is held by High Point.

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### **REORGANISATION**

Our Group completed the Reorganisation on 19 May 2014 in preparation for the [Redacted], pursuant to which our Company became the ultimate holding company of our Group.

Set out below are the key steps of the Reorganisation:

#### ***Incorporation of Best Approach***

Best Approach was incorporated in BVI on 2 January 2014, and held as to 45% by Century Rise and as to 55% by Mr. KM Lai.

#### ***Incorporation of the Company***

The Company was incorporated in the Cayman Islands on 28 January 2014, and held as to 100% by Best Approach.

#### ***Transfer of the shares of Yi Feng to the Company***

On 10 February 2014, Yi Feng repurchased (i) 55 shares (representing 55% of the total issued share capital of Yi Feng) from Mr. KM Lai, at a nominal consideration of US\$55 and (ii) 45 shares (representing 45% of the total issued share capital of Yi Feng) from Century Rise, at a nominal consideration of US\$45. On the same day, Yi Feng issued and allotted 100 fully paid shares to the Company at a nominal consideration of US\$100.

Upon completion of these transfers, Yi Feng became a wholly owned subsidiary of the Company.

#### ***Incorporation of Eco-Tech Cayman and acquisition of World Honour***

Eco-Tech Cayman was incorporated in the Cayman Islands on 15 May 2014, and is held as to 100% by Yi Feng. On 19 May 2014, 101 fully paid shares of World Honour were issued and allotted to Eco-Tech Cayman. On the same day, World Honour repurchased 101 shares from Noble Value in consideration of cash payment of HK\$101.

Upon completion of these transfers, World Honour became a wholly owned subsidiary of Eco-Tech Cayman.

#### ***Incorporation of Kewei Cayman and acquisition of World Prosperous***

Kewei Cayman was incorporated in the Cayman Islands on 15 May 2014, and is held as to 100% by Yi Feng. On 19 May 2014, one share of World Prosperous was issued and allotted to Kewei Cayman. On the same day, World Prosperous repurchased one share from Ample Forest in consideration of cash payment of HK\$1.

Upon completion of these transfers, World Prosperous became a wholly owned subsidiary of Kewei Cayman.

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### *Incorporation of China Scivest Cayman and acquisition of China Green Power*

China Scivest Cayman was incorporated in the Cayman Islands on 15 May 2014, and held as to 100% by Yi Feng. On 19 May 2014, one share of China Green Power was issued and allotted to China Scivest Cayman. On the same day, China Green Power repurchased one share from Swift Ample in consideration of cash payment of HK\$1.

Upon completion of these transfers, China Green Power became a wholly owned subsidiary of China Scivest Cayman.

### *M&A Rules*

According to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“**M&A Rules**”), which were promulgated by the MOFCOM, the State Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the SAFE on 8 August 2006 and became effective on 8 September 2006, as amended on 22 June 2009, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor (each a “**foreign acquisition**”): (1) the foreign investor purchases by agreement the equity interests of a pure domestic enterprise without foreign investment (a “**domestic enterprise**”) or subscribes for the increased capital of a domestic enterprise, and thus converts the domestic enterprise into a foreign-invested enterprise; or (2) the foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; or (3) the foreign investor purchases by agreement the assets of a domestic enterprise and then use such assets as capital contribution to establish a foreign-invested enterprise and operates such assets. The M&A Rules provide that when a foreign acquisition involves a PRC company, enterprise or individual using a foreign company, which was legally established by or is legally controlled by such person, to acquire and merge with a domestic company, with which such PRC person is associated, through any one of the foregoing methods of foreign acquisition, the transaction must be examined and approved by the MOFCOM. The M&A Rules prohibit the use of any foreign invested enterprise, or any other methods, to carry out an investment in the PRC to circumvent the requirements under the M&A Rules.

Our PRC Legal Advisers has advised that the requirements of MOFCOM approval under the M&A Rules are not applicable to our Reorganisation and [Redacted] since Mr. KM Lai and Ms. Loretta Lee, both of whom our Controlling Shareholders, are permanent residents of Hong Kong and not considered as PRC domestic individuals under the M&A Rules.

### *SAFE Circular 37*

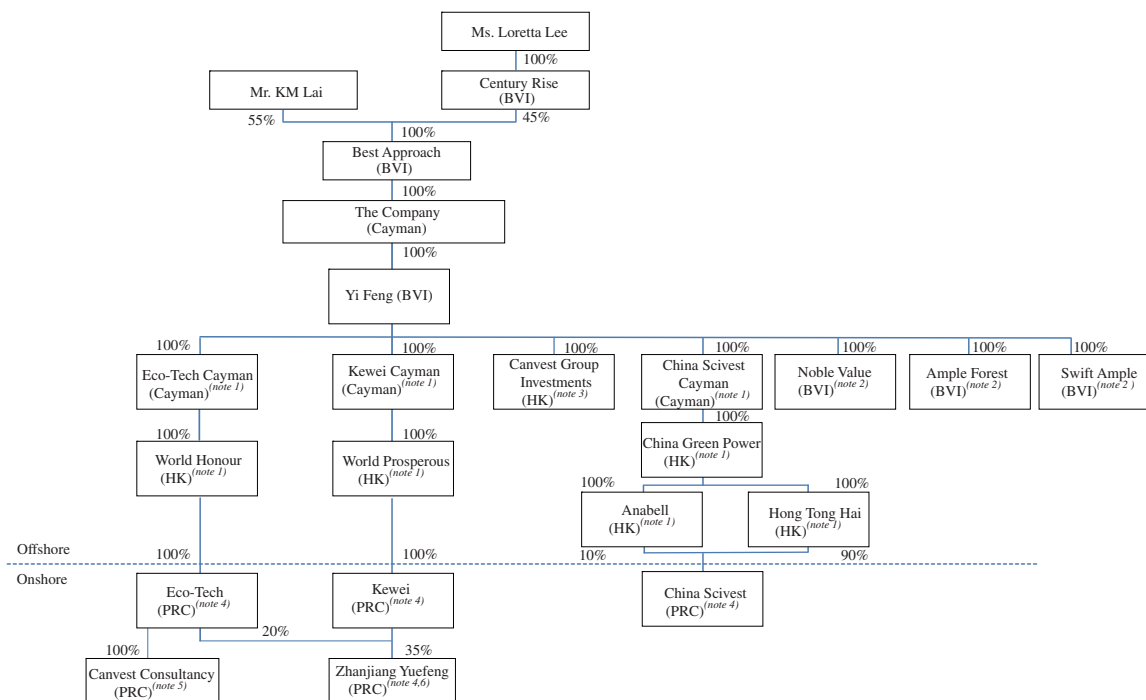
On 14 July 2014, SAFE promulgated the Notice on Issues Relating to the Administration of Foreign Exchange in Overseas Investment and Financing and Reverse Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**SAFE Circular 37**”). SAFE Circular 37 requires PRC domestic residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such

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PRC domestic residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a special purpose vehicle (“SPV”). SAFE Circular 37 further requires timely amendments to the registration for any major change in respect of the SPV, including, among other things, any major change of the SPV’s PRC resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV’s registered capital contributed by the PRC domestic resident, share transfer or swap, and merger or division.

Both of Mr. KM Lai and Ms. Loretta Lee, our Controlling Shareholders, are Hong Kong permanent residents. Based on verbal inquiries by our PRC Legal Advisers to Guangdong Bureau of the State Administration of Foreign Exchange, the competent authority for SAFE Circular 37 registration in relation to our Group, SAFE Circular 37 is not applicable to our Reorganisation as Mr. KM Lai and Ms. Loretta Lee shall be deemed as overseas individuals and not PRC domestic residents under SAFE Circular 37 and are not required to make registration under SAFE Circular 37.

The following chart sets out the shareholding structure of our Group immediately following the completion of the Reorganisation and before the completion of the [Redacted]:



*Notes:*

- (1) Eco-Tech Cayman, World Honour, Kewei Cayman, World Prosperous, China Canvest Cayman, China Green Power, Anabell and Hong Tong Hai are holding companies with no other substantive business operations.
- (2) Noble Value, Ample Forest and Swift Ample had no substantive business operations upon completion of the Reorganisation.
- (3) Canvest Group Investments is principally engaged in the provision of administrative services of other companies in our Group.
- (4) Eco-Tech, Kewei, Zhanjiang Yuefeng and China Scivest are principal subsidiaries of our Group.
- (5) Canvest consultancy was incorporated on 10 April 2014 and has not yet commenced business.
- (6) The remaining 45% equity interest in Zhenjiang Yuefeng is held by High Point.

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## HISTORY AND DEVELOPMENT

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### INTRODUCTION OF [REDACTED]

Ms. Loretta Lee and Mr. KM Lai, our Controlling Shareholders, together with their direct and indirect wholly owned subsidiaries, namely, Century Rise, Best Approach, Yi Feng and the Company (collectively the “**Relevant Companies**” and each a “**Relevant Company**”), entered into a share subscription agreement (the “**Share Subscription Agreement**”) on 10 April 2014 and subsequently, an amendment to the Share Subscription Agreement (the “**Amended Share Subscription Agreement**”) and a shareholders agreement (the “**Shareholder Agreement**”) (collectively the “[Redacted] Agreements”) on 22 May 2014 with AEP Green Power, Chatsworth and Wise Power (the “[Redacted]”). Pursuant to the [Redacted] Agreements, Best Approach agreed to issue and AEP Green Power, Chatsworth and Wise Power agreed to subscribe for 79,365, 47,619 and 25,397 redeemable convertible preference shares of Best Approach (the “**Holdco Preference Shares**”), representing 13.22% of Best Approach’s allotted and issued share capital as then enlarged on a fully-diluted and as-converted basis, for an aggregated subscription price of US\$48,000,000 (the “**Subscription Price**”). The Subscription Price was determined with reference to the net profit after tax of our Group for the year ended 31 December 2013, as well as earnings and growth prospects of our Group at the time of the [Redacted] and was agreed with the [Redacted] after arm’s-length negotiations. The [Redacted] of US\$48,000,000 was irrevocably settled and received by Best Approach on 23 May 2014.

AEP Green Power is an investment subsidiary of Asia Environmental Partners, L.P. and its parallel fund (“**AEP**”). AEP is a private equity fund with an investment focus in the renewable energy and environmental services industries in Asia. It was launched in 2008 by Olympus Capital Holdings Asia, a private equity firm with offices in Hong Kong, Shanghai, Singapore, New Delhi, New York, Seoul and Tokyo.

Chatsworth is a wholly owned subsidiary of RRJ Capital Master Fund II, L.P., an Asian-based private equity fund with a strategic focus in the environmental protection and clean energy, consumer, financial institutions, food and industrials related sectors.

Wise Power is a wholly owned subsidiary of China Infrastructure Partners, L.P., which primarily focuses on investment in renewable and clean energy, utilities and municipal services, logistics and transportation, social infrastructure and other fast-growing infrastructure related sectors in China.

Each of AEP Green Power, Chatsworth and Wise Power is an Independent Third Party. To the best understanding of our Company, each of AEP Green Power, Chatsworth and Wise Power is independent from each other.

The following table sets forth the details of the [Redacted]:

<b>Name of [Redacted]</b>	AEP Green Power, Limited	Chatsworth Asset Holding Ltd	Wise Power Investment Limited
<b>Date of investment agreement</b>	10 April 2014, supplemented on 22 May 2014	10 April 2014, supplemented on 22 May 2014	10 April 2014, supplemented on 22 May 2014

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<b>Amount of consideration paid</b>	US\$25,000,000 (equivalent to HK\$193,952,500)	US\$15,000,000 (equivalent to HK\$116,371,500)	US\$8,000,000 (equivalent to HK\$62,064,800)
<b>Date of receipt of consideration</b>	23 May 2014	23 May 2014	23 May 2014
<b>Cost per Share paid</b> <i>(Note 1)</i>	[Redacted]	[Redacted]	[Redacted]
<b>Discount to the maximum</b> [Redacted]	[Redacted]	[Redacted]	[Redacted]
<b>Use of proceeds from the</b> [Redacted]	<p>Pursuant to the Amended Share Subscription Agreement, (i) upon receiving the Subscription Price from the [Redacted], Best Approach shall make a loan to the Company in the amount of the Subscription Price less any amounts reserved for transaction costs and expenses approved by the [Redacted], such as fees to the financial adviser and professional advisers (which in aggregate amounted to approximately HK\$27.9 million); and (ii) the loan received by the Company shall be used exclusively by the Group to fund the construction of the Zhanjiang Project, Technological Upgrade of our Eco-Tech WTE Plant, acquisitions by our Group, fees and expenses in relation to the [Redacted] and to provide working capital and general corporate expenses for our Group, in each case as approved by AEP Green Power as the major investor.</p> <p>Up to the Latest Practicable Date, approximately HK\$344.5 million of the [Redacted] has been injected to our Group, of which HK\$93.6 million has been utilised. Of the amount utilised, HK\$63.0 million has been used to settle the second instalment of the consideration for the acquisition of China Scivest, HK\$6.0 million has been applied towards the Technological Upgrade of our Eco-Tech WTE Plant and HK\$24.6 million has been spent on expenses related to the [Redacted] as well as our general corporate expenses.</p>		
<b>Strategic benefits to our Group</b>	<p>The [Redacted] by the [Redacted] provided funds for acquisition of China Scivest, construction of the Zhanjiang Project, and Technological Upgrade of our Eco-Tech WTE Plant, which are beneficial to our Group.</p>		
<b>Shareholding in our Company immediately following completion of the [Redacted]</b> <i>(Note 2)</i>	(a) [Redacted]	(a) [Redacted]	(a) [Redacted]
	(b) [Redacted]	(b) [Redacted]	(b) [Redacted]
	(c) [Redacted]	(c) [Redacted]	(c) [Redacted]



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*Notes:*

1. Based on the amount of consideration paid by each [Redacted], divided by the number of Shares to be held by each [Redacted] immediately following completion of the [Redacted].
2. (a) Number of Shares to be held by each [Redacted]; (b) Shareholding percentage assuming the [Redacted] is not exercised; (c) Shareholding percentage assuming the [Redacted] is exercised in full.

The Shares to be held by the [Redacted] upon [Redacted] will be considered as part of the public float for the purpose of Rule 8.08 of the [Redacted].

### *Principal Terms of the [Redacted] Agreements*

According to the [Redacted] Agreements, the [Redacted] have, among others, the following rights and obligations under the [Redacted]. All of the rights, except the lock-up requirements under the transfer restriction, granted to the [Redacted] will expire immediately upon the occurrence of an initial [Redacted].

**Matters which  
requires Major  
Investor’s approval**

Pursuant to the Shareholder Agreement, the approval of the [Redacted] constituting a Major Investor shall be required for, among other things:

- any initial [Redacted] by our Company of its Shares on [Redacted] other than the [Redacted],
- any initial [Redacted] has a [Redacted] of (i) less than [Redacted], if the initial [Redacted] occurs at any time prior to the first anniversary of the first date upon which the Holdco Preference Shares are issued (the “**Initial Closing Date**”); or (ii) less than [Redacted], if the initial [Redacted] occurs at any time prior to the second anniversary of the Initial Closing Date; or (iii) less than an amount in excess of [Redacted] to be agreed among the [Redacted] and Best Approach, if the initial [Redacted] occurs after the second anniversary of the Initial Closing Date; and (iv) if such initial [Redacted] will result in [Redacted] of less than [Redacted].

For the purpose of the [Redacted] Agreements, a “Major Investor” is the [Redacted] (together with its Affiliates) that holds at least a majority of the outstanding Holdco Preference Shares. As of the Latest Practicable Date, the Major Investor is AEP Green Power.

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“Affiliate” means, (a) with respect to any body corporate, any other body corporate, unincorporated entity or person directly or indirectly controlling, directly or indirectly controlled by or under direct or indirect common control with, such body corporate and (b) with respect to any individual, his/her relative or any body corporate, unincorporated entity or person directly or indirectly controlling, directly or indirectly controlled by or under direct or indirect common control with, such individual or his/her relative.

Based on the low end of the [Redacted] range and the timetable of the [Redacted], the [Redacted] and the [Redacted] should meet the abovesaid requirement so that the [Redacted] does not require approval from the Major Investor.

### **Transfer Restrictions**

Ms. Loretta Lee may not until six months following the initial [Redacted], directly or indirectly transfer or enter into any agreement to transfer any shares of Century Rise, and Century Rise and Mr. KM Lai may not, until six months following the initial [Redacted], directly or indirectly transfer or enter into any agreement to transfer any shares of our Company, Best Approach or Yi Feng to any person which is not a party to the Shareholder Agreement unless prior written consent of the [Redacted] is obtained.

Furthermore, each of the [Redacted] and Best Approach may not sell any of its Shares in our Company until six months following the initial [Redacted].

### **Right to first refusal and tag-along right**

Prior to the initial [Redacted], if any of Ms. Loretta Lee, Mr. KM Lai or Century Rise proposes to make a permitted transfer of the shares of Best Approach, or if Best Approach proposes to make a permitted transfer of the shares of our Company (the “**Offered Shares**”), then the selling shareholder shall deliver to each [Redacted] an offer notice specifying, among other thing, (i) the number of Offered Shares to be transferred; (ii) the amount payable; and (iii) the terms and conditions. Each [Redacted] has the option, but not the obligation, to purchase the number of Offered Shares at the amount payable and upon the same terms and conditions as stipulated in the offer notice (the “**Right of First Refusal**”).

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If any of Ms. Loretta Lee, Mr. KM Lai or Century Rise proposes to effect the sale of the Offered Shares to any person other than the [Redacted] (the “**Third Party Sale**”), each [Redacted] has the option, but not the obligation, to participate in such sale of shares at the same price and upon the same terms and conditions as the selling shareholder (the “**Tag-along Right**”). Each [Redacted] may exercise its Tag-along Right by delivering a tag-along notice to the selling shareholder specifying, among other things, the number and type of Offered Shares that such [Redacted] desires to include in the Third Party Sale. The number of shares the [Redacted] can sell by exercising the Tag-along Right is the lesser of (i) the number and type of Offered Shares proposed to be sold; and (ii) the number and type of Offered Shares that represents a ownership percentage equal to the product of (A) the ownership percentage represented by the Offered Shares and (B) a fraction, the numerator of which is the ownership percentage of the [Redacted], and the denominator of which is the sum of the ownership percentage of such [Redacted], any other [Redacted] exercising the Tag-along Right, and the selling shareholder, calculated immediately prior to the proposed Third Party Sale.

### **Pre-emptive rights**

Best Approach and any member of the Group shall not issue any equity securities to any person (other than equity securities issued for consideration other than cash or cash equivalents in connection with a transaction approved by the board of directors of Best Approach) unless an offer is first made to the [Redacted]. If the [Redacted], collectively, elects to purchase fewer equity securities offered, then any remaining equity securities may be offered/ issued on terms no more favourable than that was offered to the [Redacted] within 90 days following the date of the offer.

The said pre-emptive rights do not apply to issue of shares pursuant to the [Redacted].

### **Conversion rights**

Each [Redacted] shall have the right, at its option, to convert all, but not part, of its Holdco Preference Shares into the common shares of Best Approach (the “**Holdco Conversion Shares**”).

The number of Holdco Conversion Shares to be issued by Best Approach to the [Redacted] upon exercise of a Conversion Right shall be determined by dividing the aggregate issue price of the Holdco Preference Shares by the conversion price at the time of conversion. The conversion price will be equal to HK\$2,443.80 per Holdco Preference Share subject to adjustments upon the occurrence of certain event such as issuance of further shares, change in the number of equity securities, a division or combination of the common shares of Best Approach.

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### **Redemption rights**

The [Redacted] shall be entitled to require Best Approach to redeem in-kind the outstanding Holdco Preference Shares through distribution or transfer by Best Approach to the [Redacted] of shares in our Company attributable to such Holdco Preference Shares.

On the date which an initial [Redacted] occurs, all Holdco Preference Shares held by the [Redacted] outstanding on such date shall be automatically redeemed in-kind as described above.

Century Rise has entered into a charge agreement, pursuant to which certain common shares in Best Approach are charged in favour of the [Redacted] to secure redemption obligations of Best Approach. Such right shall lapse upon the [Redacted].

### **Matters which requires approval by supermajority [Redacted] or all [Redacted]**

Certain actions shall not be taken without the prior approval from supermajority [Redacted] (being [Redacted] holding not less than two-thirds of the aggregate Company ownership percentages of the [Redacted]) or all [Redacted] prior to an initial [Redacted]. These matters include, among others:

- Redeeming or repurchasing any securities in the Relevant Companies or any indebtedness prior to maturity, other than redemption of the common shares of Best Approach or Holdco Preference Shares in accordance with the [Redacted] Agreements.
- Entering into any profit-sharing or royalty agreement or other cooperation arrangements with third parties, other than in the ordinary course of business of our Group.
- Incurring capital expenditures or cash flows, making or disposing of investments, or purchasing or disposing of assets of any nature (tangible or intangible) in a single transaction or series of transactions exceeding RMB50,000,000, other than in the ordinary course of business of our Group.
- Approving any change in the size or nomination rights of the board of Best Approach or creating any committee and/or delegating powers to any committee of the board of Best Approach.

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- Approving a merger, consolidation, liquidation, dissolution, winding-up, recapitalisation, reorganisation, voluntary bankruptcy, or any moratorium, compromise or other similar arrangement with creditors, or assignment for the benefit of creditors or sale of all or substantially all of the assets, or entering into any transaction having a similar effect, except (a) acquisition of assets or businesses consistent with our Group’s principal business activities; and (b) actions related to the intra-group reorganisation carried out in preparation of an initial [Redacted].
- Permitting any capital restructuring (including any increase or decrease in share capital) or entering into any transaction having a similar effect.
- Approving any conversion or exchange of any securities in the Relevant Companies into another class of securities in the Relevant Companies.
- Declaring or paying any dividends, declaring or making any other distribution, directly or indirectly, on account of any securities of the Relevant Companies, or any capitalisation of reserves, other than transfers and distributions of our Company Shares in accordance with the exercise of redemption-in-kind rights under the [Redacted] Agreements.
- Modifying the memorandum and articles of association of Best Approach or taking any other action that would adversely affect the ranking, rights, preference, powers and privileges of, or restrictions provided for the benefit of, the Holdco Preference Shares.

### **Dividends**

The holder of the Holdco Preference Shares shall be entitled to receive dividends out of the profits of Best Approach or our Company available for distribution with the amount equal to the profits that would be available for declaration and payment on the common shares of Best Approach or our Company on an as-converted basis (based on the then applicable conversion price) as and when declared by the board of Best Approach or our Company.

### **Information rights**

Under the [Redacted] Agreements, the [Redacted] have also been granted information rights with respect to certain information on our Group.

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## HISTORY AND DEVELOPMENT

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- Board representation** Under the [Redacted] Agreements, the board of director of Best Approach shall be responsible for determining and implementing the overall policy of the Group, and all decisions relating to the business, investments and dispositions with respect to the Group prior to the occurrence of an initial [Redacted]. Each of the Major Investor and Wise Power is entitled to appoint one member to the board of directors of Best Approach. RRJ shall be entitled to appoint one observer to attend all meetings of the board of directors of Best Approach in a non-voting observer capacity.
- Profit guarantee** As a separate agreement, if we (i) have not completed an initial [Redacted] on or prior to 31 March 2015 and (ii) do not meet a certain profit threshold for the year ending 31 December 2014, Century Rise shall compensate each [Redacted] in common shares of Best Approach or of the Company based on pre-determined formulae. Such arrangement if triggered will only be settled by Century Rise. The formulae are not linked to the market price or capitalisation of the Shares, and such right shall lapse upon the [Redacted].
- Survival of rights** All of the rights, except the lock-up requirements under the transfer restriction, granted to the [Redacted] will expire immediately upon the occurrence of an initial [Redacted].

The Company and the Sponsor are of the view that the [Redacted] is in compliance with the Interim Guidance (i.e. Guidance Letter [Redacted]), Guidance Letter [Redacted] and [Redacted].

### ESTABLISHMENT OF THE HARVEST VISTA TRUST

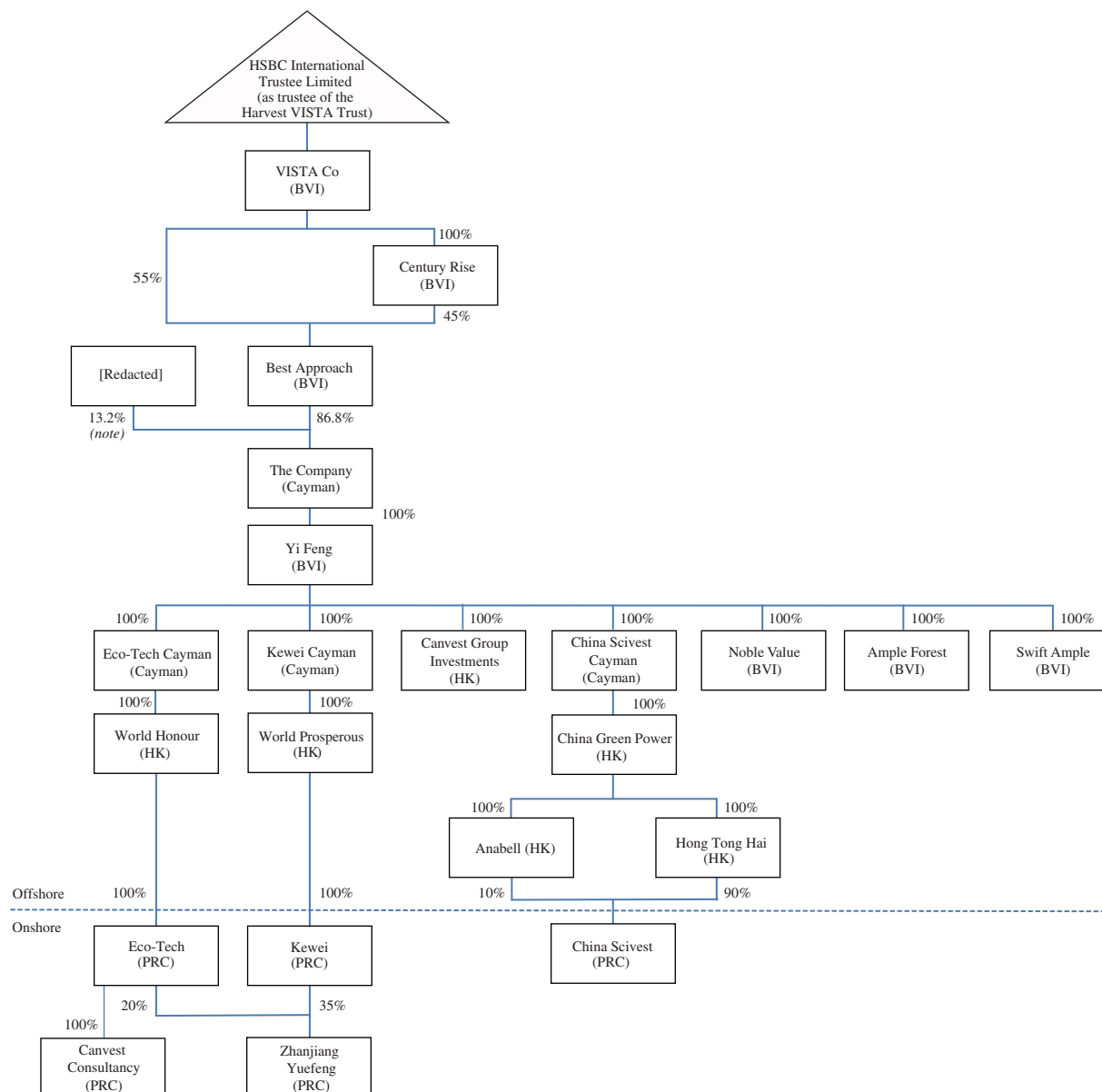
On 27 June 2014, the Harvest VISTA Trust was established as a discretionary trust, with Mr. KM Lai and Ms. Loretta Lee as founders. On 24 September 2014, Ms. Loretta Lee transferred her entire shareholdings in Century Rise to VISTA Co, a limited company incorporated in the BVI, for nil consideration. On the same day, Mr. KM Lai transferred his entire shareholdings in Best Approach to VISTA Co for nil consideration. On the same day, each of Ms. Loretta Lee and Mr. KM Lai transferred their entire shareholdings in VISTA Co to HSBC International Trustee Limited in its capacity as trustee of the Harvest VISTA Trust. The beneficiaries of the Harvest VISTA Trust are Mr. KM Lai, Ms. Loretta Lee and the personal trust of Ms. Loretta Lee (the beneficiaries of which are Ms. Loretta Lee and her immediate family members). The sole asset of the Harvest VISTA Trust is the entire issued share capital of VISTA Co. HSBC International Trustee Limited is the trustee of the Harvest VISTA Trust.

Written approval by the Major Investor has been obtained in accordance with the Shareholder Agreement with respect to the share transfers pursuant to the establishment of the Harvest VISTA Trust.

## HISTORY AND DEVELOPMENT

### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE THE [REDACTED]

After completion of the Reorganisation and the automatic redemption in kind under the terms of the [Redacted] but immediately before [Redacted] and the [Redacted]:



*Note:* Among which, AEP Green Power, Chatsworth and Wise Power will hold 6.9%, 4.1% and 2.2% shareholding in our Company, respectively.

## **HISTORY AND DEVELOPMENT**

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### **CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP AFTER COMPLETION OF THE [REDACTED]**

Immediately after completion of the [Redacted] (without taking into account any Shares which may be issued upon exercise of any options that may be granted pursuant to exercise of the [Redacted]):

[Redacted]



## **BUSINESS**

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### **OVERVIEW**

We are a leading pure play waste-to-energy provider focused on the development, management and operation of WTE plants. Our WTE plants had a total daily MSW processing capacity of 3,000 tonnes in 2013 and according to the Euromonitor Report, in terms of daily MSW processing capacity for commercial operating WTE plants in 2013: (i) we were the second largest WTE provider in Guangdong Province and the 11th largest WTE provider in the PRC with a market share of approximately 13.0% and 2.0%, respectively; and (ii) out of all non-State-owned background enterprises, we were the largest WTE provider in Guangdong Province and the fourth largest WTE provider in the PRC.

The WTE market is expected to experience significant growth in the future. According to the Notice of the State Council on Issuing the 12th Five-year Plan for National Environmental Protection (國務院關於印發國家環境保護“十二五”規劃的通知) issued in December 2011, the PRC government estimated there would be a total investment of approximately RMB3.4 trillion in environment protection during the period from 2011 to 2015. According to the National Twelfth Five-Year Plan for Construction of MSW Innocuous Treatment Facilities (“十二五”全國城鎮生活垃圾無害化處理設施建設規劃) issued in April 2012, the PRC government has targeted a total investment of approximately RMB263.6 billion for MSW treatment facilities during the period from 2011 to 2015. Please see the section headed “Regulatory overview — Overview — Macro planning policy for the MSW treatment industry” for further details. Guangdong Province had the largest MSW innocuous treatment capacity among all PRC provinces as of 2012. According to the Euromonitor Report, Guangdong is expected to have the largest waste incineration capacity among all Chinese provinces in 2015, with its daily waste incineration capacity growing at a CAGR of around 28.7% from 2010 to 2015. Currently, we have three WTE plants, namely the Eco-Tech WTE Plant, the Kewei WTE Plant and the China Scivest WTE Plant, all of which are located in Dongguan, Guangdong Province, the PRC. Our Directors believe we are well-positioned to capture the opportunities and benefits from the future growth of the WTE industry in Guangdong Province.

Our Kewei WTE Plant and China Scivest WTE Plant both possess a daily MSW processing capacity of 1,800 tonnes, while our Eco-Tech WTE Plant will also have a daily MSW processing capacity of 1,800 tonnes after re-commencing trial operation upon completion of its Technological Upgrade in the third quarter of 2015. We are in the course of developing the Zhanjiang WTE Plant in Zhanjiang of Guangdong Province pursuant to a BOT concession right. The Zhanjiang WTE Plant will have a daily MSW processing capacity of 1,000 tonnes after the completion of phase one of the Zhanjiang Project in the third quarter of 2015.

Our WTE business basically involves the processing of MSW and selling of electricity. We receive and process MSW from our suppliers which are primarily local governmental bodies and we receive waste treatment fees from MSW suppliers based on the tonnage of MSW delivered. The MSW collected are incinerated in our WTE plants to generate electricity which is then sold to the local power grid companies.

## BUSINESS

During the Track Record Period, in addition to the on-grid tariffs for the sale of power and waste treatment fees for all our operating WTE plants, we have recorded construction revenue and finance income during the six months ended 30 June 2014 in respect of Zhanjiang WTE Plant which is a BOT project under development. No construction revenue and finance income were recorded for our BOO projects. For further details of our revenue recognition, please refer to the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOT and BOO projects accounting implications” in this [Redacted].

The following table sets out our revenue distribution during the Track Record Period:

	2011		Year ended 31 December				Six months ended 30 June			
	2011	2012	2012	2013	2013	2014	2013	2014		
	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>	<i>Approx.</i>		
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	(unaudited)									
<b>Power sales</b>										
Eco-Tech*	18,560	12.0	119,307	30.8	120,833	31.0	61,268	31.5	36,243	11.6
Kewei	88,465	57.3	146,100	37.8	140,904	36.1	71,882	37.0	70,189	22.4
China Scivest**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	86,348	27.5
<b>Sub-total</b>	107,025	69.3	265,407	68.6	261,737	67.1	133,150	68.5	192,780	61.5
<b>Waste treatment fees</b>										
Eco-Tech*	7,697	5.0	47,367	12.2	50,954	13.1	23,473	12.1	14,518	4.6
Kewei	39,748	25.7	74,360	19.2	77,482	19.8	37,886	19.4	40,507	12.9
China Scivest**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	50,610	16.2
<b>Sub-total</b>	47,445	30.7	121,727	31.4	128,436	32.9	61,359	31.5	105,635	33.7
<b>Construction revenue relating to service concession arrangement</b>	—	—	—	—	—	—	—	—	14,736	4.7
<b>Finance income relating to service concession arrangement</b>	—	—	—	—	—	—	—	—	119	0.1
<b>Total revenue</b>	154,470	100.0	387,134	100.0	390,173	100.0	194,509	100.0	313,270	100.0

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group’s operations. Please see “History and development — Corporate history of our principal subsidiaries — Eco-Tech” for further details. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

\*\* China Scivest was acquired and its results was accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

Starting from April 2014, our Eco-Tech WTE Plant has temporarily suspended its operations due to the Technological Upgrade. It is expected that our Eco-Tech WTE Plant will resume trial operation and commercial operation by the third quarter of 2015 and second quarter of 2016, respectively. Since April 2014, our revenue has mainly been generated from the operation of our Kewei WTE Plant and China Scivest WTE Plant.

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## **BUSINESS**

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### **OUR COMPETITIVE STRENGTHS**

#### **We have a proven track record for growing organically and through acquisitions**

Founded in 2003, via organic growth and acquisitions, we grew from having only a single WTE Plant with a daily MSW processing capacity of 1,200 tonnes in 2006, to a WTE provider with three WTE plants in operation as at 1 January 2014 having a total daily MSW processing capacity of 4,800 tonnes. Riding on our proven track record, we have the capability to continue our growth and in particular:

- in April 2014, we launched the Technological Upgrade of our Eco-Tech WTE Plant to convert its incineration technology and increase its daily MSW processing capacity from 1,200 to 1,800 tonnes;
- after the completion of phase one of our Zhanjiang WTE Plant (which is expected to be in the third quarter of 2015), our daily MSW processing capacity will be increased by 1,000 tonnes. In the event that Zhanjiang DRB enters into a separate concession agreement with Zhanjiang Yuefeng in relation to the construction of phase two of the Zhanjiang WTE Plant, we will possess an additional daily MSW processing capacity of 500 tonnes after completion of the construction; and
- we intend to use approximately [Redacted], or approximately [Redacted] of the [Redacted] of the [Redacted], to expand our WTE business by either developing greenfield projects (through bidding or otherwise) or acquiring existing WTE projects.

After the completion of the Technological Upgrade of our WTE plant and the completion of phase one and phase two of our Zhanjiang WTE Plant, our daily MSW processing capacity will be increased from 4,800 tonnes to 6,900 tonnes. In addition, we have a competitive edge over our competitors in capturing different types of business opportunities for our growth, based on our track record and experience in the development, acquisition, construction, operation and Technological Upgrade of WTE plants, and utilising various types of incineration technology. Furthermore, our Directors believe that we have the capability to target WTE plants that are currently adopting fluidised bed incineration technology, being poorly managed, lacking technical expertise and/or having low operational efficiency. After we acquire such WTE plants, we will aim to upgrade them by leveraging on our technical know-how and our management experience, and operate them with the same high operational standards as our existing plants.

We had not identified any suitable acquisition target(s) as at the Latest Practicable Date. We believe that implementation of our future plans and strategies will not constitute any significant shift in our business focus after the [Redacted].

#### **Our WTE plants benefit from favourable renewable energy policies of the PRC government**

With an increased level of environmental awareness in recent years, the PRC government has been active in encouraging the WTE industry by way of policies and regulations.

## **BUSINESS**

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According to the National Development and Reform Commission’s Notice in relation to the Optimisation of Waste-to-Energy Power Tariff Policy (國家發展改革委關於完善垃圾焚燒發電價格政策的通知), the tariff for electricity generated by WTE plants is priced at a premium to plants which utilise non-renewable resources. All of our existing WTE plants (including our Eco-Tech WTE Plant after its Technological Upgrade) benefit from this favourable policy. Electricity generated by WTE plants is supplied to the state grid at an unified tariff of RMB0.65 per kWh (VAT inclusive) for the first 280 kWh of power generated by each tonne of MSW processed, which is higher than the tariff of RMB0.502 per kWh (VAT inclusive) applicable to coal-fired power plants in Dongguan as at the Latest Practicable Date. The tariff may be further increased by RMB0.01 to RMB0.03, depending on the length of the power transmission line between the WTE plant and the connected power grid.

Pursuant to the Renewable Energy Law, grid companies must purchase the full amount of the on-grid power of the renewable WTE plants within the coverage of their grids, provided that certain requirements (such as obtaining administrative approval) are met. Furthermore, WTE plants are entitled to higher grid dispatch priority than power plants fuelled by nuclear power, natural gas, coal or oil. All of our project companies currently enjoy or are entitled to enjoy mandatory power purchase and grid connection privileges under these regulations and policies. For more information, please refer to the sections headed “Regulatory overview — Mandatory grid connection and full amount purchase and related agreements” and “Regulatory overview — Major regulatory requirements for the WTE Plant — Priority in dispatch”.

We also enjoy various preferential tax policies implemented by the PRC government. Under the relevant law, WTE plants may be entitled to full exemption from enterprise income tax for three years starting from the year when production and operating revenue from the WTE project are first received, and enjoy 50% reduction in enterprise income tax for the three years thereafter. Furthermore, WTE plants may be entitled to enjoy the preferential policy of immediate refund upon collection of VAT for electricity tariffs, provided certain requirements are met. Lastly, no business tax were imposed on our waste treatment fees. All of our project companies currently enjoy or are entitled to enjoy from such preferential tax policies. For further details of these preferential tax treatments, please refer to the section headed “Regulatory overview — Tax preferences” in this [Redacted].

In view of the above, our Directors believe that our business has been benefited and will continue to be benefited from these favourable government policies and incentives for renewable energy.

### **We are strategically located in Guangdong Province**

Through our continuous efforts and commitment, we have successfully gained a leading position in Guangdong Province. According to the Euromonitor Report, in terms of daily MSW processing capacity for commercial operating WTE plants in 2013: (i) we were the second largest WTE provider in Guangdong Province with a market share of approximately 13.0% and (ii) out of all non-State-owned background enterprises, we were the largest WTE provider in Guangdong Province.

## **BUSINESS**

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According to the Euromonitor Report:

- Guangdong, which has the largest GDP and population in China by province as of 2013, is projected to continue its rapid growth in urbanisation and the local government is expected to rank the top in terms of investing resources in MSW treatment out of all provinces in the PRC during the period from 2010 to 2015;
- the MSW collected and transported in Guangdong Province is expected to increase by approximately 9.7 million tonnes from 2014 to 2018, representing a CAGR of approximately 8.5%, which is higher than the national level of approximately 7.5%; and
- the daily waste incineration capacity in Guangdong Province is expected to grow by approximately 29,750 tonnes from 2010 to 2015 at a CAGR of approximately 28.7%, and in 2015 Guangdong Province is expected to have the largest waste incineration capacity amongst all provinces and direct-controlled municipalities in the PRC, reaching approximately 41,493 tonnes per day.

Given that all three of our existing WTE plants and the WTE plant to be developed are all located in Guangdong Province, our Directors believe that we are well-positioned to capture the benefits from the future growth of the WTE industry in Guangdong Province, fueled by the rapid economic growth and an increasing demand for MSW treatment.

**We have an experienced and stable management team with strategic vision supported by professional and dedicated core technical staff**

Our management team possesses in-depth knowledge and understanding of the WTE and power industries and has significant experience in the development, operation and management of WTE plants in the PRC. A majority of our senior management team (including our executive Directors) have over 10 years of experience in the power industry. They have accumulated valuable operation experience in the power industry and have made substantial contribution to the successful launch and operation of our Eco-Tech WTE Plant and Kewei WTE Plant, and the Technological Upgrade of our China Scivest WTE Plant. For instance, Mr. Yuan Guozhen, our executive Director and Chief Executive Officer, has vast experience in the management and operations of power plants. Mr. Song Lanqun, the executive deputy general manager of Eco-Tech and Kewei, played a leading role in the construction and management of our Eco-Tech WTE Plant and Kewei WTE Plant. Mr. Chen Bo, the executive deputy general manager and chief engineer of China Scivest, led the Technological Upgrade of our China Scivest WTE Plant. Please refer to the section headed “Directors and senior management” for further details of their work experience. Our core technical staff have also accumulated in depth experience and technical knowledge through their substantial involvement in the daily management of our WTE plants and the Technological Upgrade of our China Scivest WTE Plant and Eco-Tech WTE Plant.

Besides their vast experience in the power industry, our management team possesses strategic vision in the development of our WTE business. Our management team anticipated an increasing demand for MSW processing in the PRC and expected more stringent environmental standards in relation to WTE facilities to be imposed over time, such as the new “Standard for Pollution Control on the Municipal Solid Waste Incineration” (生活垃圾焚燒污染控制標準 (GB18485-2014)) (the “New

## **BUSINESS**

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Standard”) which will apply to WTE plants constructed on or after 1 July 2014 and existing WTE plants on 1 July 2014 and 1 January 2016, respectively. Anticipating such changes, we decided to launch the Technological Upgrade of our Eco-Tech WTE Plant at our own initiative before the New Standard was issued and to acquire the China Scivest WTE Plant after its Technological Upgrade to secure our dominant market position in Guangdong Province. Our existing WTE plants, namely the Kewei WTE Plant, the China Scivest WTE Plant and the Eco-Tech WTE Plant which is undergoing its Technological Upgrade, will meet the New Standard when it takes effect on 1 January 2016. The design of our Zhanjiang WTE Plant will also comply with the New Standard. Our experienced and visionary senior management team (including our executive Directors) will enable our Group to grow steadily in the future.

### **We have a distinct advantage over competitors which utilise the fluidised bed technology**

WTE plants using moving grate technology to generate electricity from waste have a higher operational efficiency than that of WTE plants using fluidised bed technology, due to lower production cost, as (i) the moving grate technology does not require coal as an auxiliary fuel to generate power, and thus is free from any financial impact which may be caused by the price volatility of coal; and (ii) WTE plants which adopt the fluidised bed technology require more workers to operate the incinerator than plants which adopt the moving grate technology. As a comparison, the gross profit margin of our Eco-Tech WTE Plant, which adopted the fluidised bed technology during the Track Record Period, were lower than that of our Kewei WTE Plant, which adopts the moving grate technology. The financial performance of China Scivest also improved after the Technological Upgrade of our China Scivest WTE Plant. Please refer to the section headed “Financial information — Description of selected items in the consolidated income statement — Gross profit and gross profit margin” and the Accountant’s Report of the Group in Appendix I to this [Redacted] for further details. Both of our currently operating WTE plants, namely our Kewei WTE Plant and our China Scivest WTE Plant, adopt the moving grate technology. Our Eco-Tech WTE Plant (upon the completion of its Technological Upgrade) and Zhanjiang WTE Plant will also adopt the moving grate technology. Our Directors believe we have a distinct advantage over our competitors which utilise the fluidised bed technology in their WTE plants as we will be able to enjoy higher gross profit margin and operational efficiency.

### **Our award-winning WTE plants signified our strength and standard of operations**

Our WTE plants are operated at a high quality standard, as evidenced by the many accolades and recognitions that we have received. In 2012, Kewei was awarded “Grade AA Innocuous Waste Incineration Plant (AA級無害化焚燒廠)” by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳), the second highest grade in the five-tier grading system. In 2012, only eight out of the 18 WTE plants in Guangdong Province obtained grade AA or above. WTE plants must go through inspection and assessment in three separate stages by the municipal environmental bureau, the provincial housing and urban-rural development authority and an expert group appointed by the Ministry for Housing and Urban-Rural Development (住房和城鄉建設部) before being awarded with a grade. In 2013, our Kewei WTE Plant was also rated by the Guangdong Province Environment and Sanitation Association (廣東省環境衛生協會) as an “Excellent MSW Treatment Project in Guangdong Province” (廣東省城市生活垃圾處理優秀項目). Only four other WTE plants in Guangdong Province achieved this rating or better.

## **BUSINESS**

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In addition, Kewei was awarded the ISO 14001 Environment Management System Certificate and ISO 9001 Quality Management System Certificate in 2013 and Eco-Tech was awarded the ISO 9001 Quality Management System Certificate in 2011. For further details of the awards and recognitions that we have received, please refer to the paragraph headed “Awards and recognitions” below.

In addition, according to the Technical Report prepared by Mott MacDonald (Beijing) Limited (the “**Technical Consultant**”), the annual utilisation hours and power output of our currently operating WTE plants were both above the national average level. Based on the past experience of its engineers, the Technical Consultant was of the view that the operating parameters (including the waste processing capacity, operation hours and the management level of the whole plant) of our Kewei WTE Plant were generally better than the operating parameters of the same type of WTE plants in the PRC and its actual operation was slightly better than that in the feasibility study conducted prior to the construction of the Kewei WTE Plant. Furthermore, based on the experience of its engineers, the Technical Consultant expected that the operating parameters of our China Scivest WTE Plant (including its waste processing capacity, operation hours and the management level of the whole plant) would be better than that of the same type of WTE plants in the PRC. The above observations stated in the Technical Report reflect our high standard of operations. For further details, please refer to the “Technical Report” set out in Appendix IV to this [Redacted].

### **BUSINESS STRATEGIES**

Our long-term vision is to become a dominant pure play WTE provider in the PRC. To achieve this, we plan to pursue the following strategies:

#### **Continue to seek new opportunities to expand our capacity through either developing our own greenfield projects or pursuing acquisitions**

We intend to continue to expand our capacity through either developing our own greenfield projects or pursuing acquisitions. When we expand our WTE business by way of developing greenfield projects, we give priority to regions which fulfil certain criteria such as: (i) the absence of well-established WTE plants or fierce competition for WTE business in those regions; (ii) current or expected robust demand for waste treatment services; (iii) the daily MSW processing capacity of new projects would be at least 1,000 tonnes; and (iv) internal rate of return of at least 8%.

Besides developing greenfield projects, we will seek to acquire WTE plants that are currently adopting fluidised bed incineration technology, being poorly managed, lacking technical expertise and/or having low operational efficiency. After we acquire such WTE plants, we will aim to upgrade them by leveraging on our technical know-how and our management experience, and operate them with the same high operational standards as our existing plants.

To realise our plans, we have a designated team which maintains regular contact with the government authorities to explore new development opportunities and manage to keep ourselves abreast of the development of the WTE market so as to identify appropriate greenfield projects and acquisition targets. In particular, we have been strengthening our business networks through joining various industry organisations, environmental protection exhibitions and industrial conferences, thereby increasing our presence and recognition in the WTE industry. For instance, we are a member

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## **BUSINESS**

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of the China Renewable Energy Industry Association (中國可再生能源行業協會) and the Guangdong Province Urban Waste Disposal Industry Association (廣東省城市垃圾處理行業協會). Furthermore, we will continue our efforts in reaching out to potential new business partners and customers by arranging site visits for potential new business partners and customers to our WTE plants to demonstrate our industrial knowledge, technical expertise, management excellence and capability. We will approach and exchange ideas with governmental bodies in different regions which are interested but have limited experience in WTE plant development. We intend to provide consultation services to these governmental bodies, to educate them on the WTE industry and to demonstrate our technical expertise and capability on a voluntary basis. Currently, through such marketing efforts we have successfully established a working relationship with one of the local government authorities in Southern China, by assisting in the initial preparation of the feasibility studies and technical reports on developing WTE facilities for that local region. Our Directors believe these efforts give us the opportunities to gain a better and deeper understanding of the local MSW environment and potential WTE needs, which are effective means to promote our reputation amongst local governments which may use our waste treatment services.

We intend to use approximately [Redacted], or approximately [Redacted] of the [Redacted] of the [Redacted] to expand our WTE business by developing greenfield projects (through bidding or otherwise) or acquiring existing WTE projects. To ensure maximum investment returns, we also conduct detailed feasibility studies on potential projects before making any investment decisions. We had not identified any suitable acquisition targets as at the Latest Practicable Date.

### **Continue to improve our operational efficiency and financial performance**

We intend to strengthen our operational efficiency and improve our standard of operations by implementing the Technological Upgrade, effectively managing our costs and enhancing our technological equipment. We believe that our ability to improve our operational efficiency and financial performance is crucial to the success of our business, in particular when we seek to increase our presence throughout the PRC by acquiring existing WTE plants or developing greenfield projects, as we believe that the track record of our operations would be taken into consideration when the relevant government authorities assess the merits of our applications.

The Technological Upgrade of a WTE plant can enhance the plant’s operational efficiency and financial performance. The Technological Upgrade can reduce production costs by eliminating the need to use coal as an auxiliary fuel and also reduce labour cost as fewer staff will be required for the plant’s operation. In particular, we anticipate that after the completion of the Technological Upgrade of our Eco-Tech WTE Plant, it will enjoy the following benefits: (i) power sales to generation ratio will be increased; (ii) power generation capacity factor will be increased; and (iii) daily MSW processing capacity will be increased from 1,200 tonnes to 1,800 tonnes, representing a 50% increment. On top of the above, as a continuous measure to improve our operational efficiency and financial performance, we intend to closely monitor our operating costs and apply effective cost control measures. We will also enhance our technological equipment through cooperation with our equipment suppliers to optimise the efficiency of our equipment. To improve the daily operations of our WTE plants, we will continue to fine tune and strictly adhere to our repair and maintenance schedules for each of our WTE plant, and to maintain efficient communications with the local power



## **BUSINESS**

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grid companies. We believe the combination of these measures will improve the operational efficiency and financial performance of our plants, and will enhance our recognition among industry participants and government authorities, which will increase our success in materialising and implementing our future business plans.

### **Expand our business by offering consultancy services to other WTE providers**

Leveraging on our experience in the development, construction and operation of WTE plants and our technical know-how in implementing the Technological Upgrade of WTE plants and utilising various types of incineration technology, we intend to expand our business by offering consultancy services to other existing and/or potential WTE providers. We intend to provide the following three types of consultancy services: (i) conducting feasibility studies for potential developers on various aspects of a WTE project, such as supply and installation of equipment; (ii) providing operational enhancement advice to WTE providers which lack the technical expertise to operate their WTE plant(s) efficiently; and (iii) utilising our experience and technical know-how to assist WTE providers in carrying out a Technological Upgrade of their WTE plant(s). As of the Latest Practicable Date, we do not have a specific timeframe for implementing this expansion plan.

We believe the expansion of our business offering will diversify our revenue source and increase our reputation in the industry, which will in turn be beneficial to our long term business development.

### **Continue to strengthen our talent base through enhanced recruiting and training programmes**

We believe our ability to continue to retain and recruit capable and motivated managerial, technical, operational and production employees is critical to our success. As our managerial, technical, operational and production employees manage our projects and interact with our contractors and customers on a regular basis, they are vital in maintaining the high-quality and consistency of our service offering and our reputation in the industry. We, therefore, seek to continue to develop and incentivise our talent base by encouraging our employees to develop leadership skill sets and qualities while working on our many projects and acknowledging the contributions of all of our employees. We encourage our personnel to continue to develop their substantive and technical skills through continuing education programmes. We will also continue to recruit quality talent to support our continuous business expansion.

## **BUSINESS MODEL**

### **Our BOO projects and BOT projects**

Our WTE business operations include both BOO projects and BOT projects. Currently, our Eco-Tech WTE Plant and Kewei WTE Plant are BOO projects, whereas our China Scivest WTE Plant and Zhanjiang WTE Plant (which is currently under development) are BOT projects.

### **BOO projects**

The main characteristics of our BOO projects may include: (i) project companies own and operate their facilities and assets with no obligation to transfer their ownership of the relevant WTE

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plant and the ancillary production facilities to any specified parties at any specified time; (ii) there is no undertaking from the government authorities in favour of any of the project companies to maintain any minimum supply of MSW, and the respective project companies liaise and enter into waste supply agreements with various MSW suppliers directly; (iii) the operational rights of the WTE plants were not granted to the project companies through open tender processes, but were by way of the local government’s approvals of their applications for the operation of the respective WTE plants.

In terms of accounting treatment, BOO project companies only recognise revenue when they generate waste treatment fees and on-grid tariffs (see the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications”). However, similar to WTE plants that are operated on a BOT basis, WTE plants that are operated on a BOO basis in the PRC also benefit from PRC government policy relating to mandatory power purchase and grid connection privileges for power generated from renewable energy resources.

### **BOT projects**

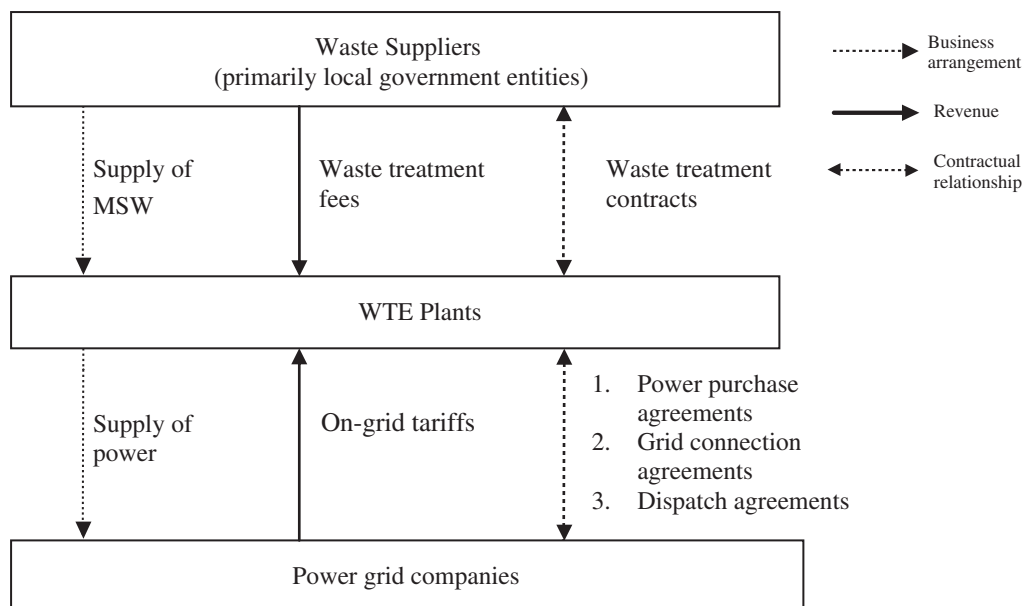
WTE plants which are developed and operated on a BOT basis are currently the mainstream model in the WTE industry in the PRC. When compared to BOO projects, the key characteristics of BOT projects may include: (i) the development and operational rights of our plants under the BOT projects were granted through concessions from government authorities to the project companies; (ii) upon the expiry of the respective concession periods, project companies will be required to transfer the ownership of their respective WTE plants and the ancillary facilities to the relevant government authority without compensation; and (iii) the relevant government authority has undertaken to the respective project companies to guarantee a minimum supply volume of MSW during the concession period and compensate the respective project companies if there is any shortfall.

In addition to recognising revenue when the relevant WTE plants generate waste treatment fees and on-grid tariffs, BOT project companies may further recognise construction revenue and cost relating to service concession arrangement during the construction phase and finance income during the concession period (see the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications”).

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### Our sources of revenue

The following diagram summarises our business model, main revenue streams and contractual arrangements during the Track Record Period:



Our WTE business is principally effected through a series of contractual relationships with MSW suppliers and the local power grid companies. We enter into waste treatment contracts with MSW suppliers which are primarily local governmental bodies at county or town level. Under the waste treatment contracts, these suppliers commit to supply and deliver their respective contracted amounts of MSW to our WTE plants and pay us waste treatment fees based on the tonnage of MSW delivered. For our BOO projects, we have to negotiate such waste treatment contracts with the MSW suppliers directly, whereas for our BOT projects, such waste treatment contracts are executed under the coordination of the relevant government authorities which may guarantee a minimum supply of MSW to our WTE plants and may compensate us in case there is any shortfall.

Our WTE plants incinerate MSW to generate power, which is then transmitted to the local power grid companies and charged at tariff levels as determined by the National Development and Reform Committee and the local price bureau.

#### *On-grid tariffs*

According to the Renewable Energy Law of the PRC (中華人民共和國可再生能源法) implemented on 1 January 2006 and the Provisions on Administration of Renewable Energy Power Generation (可再生能源發電有關管理規定) implemented on 5 January 2006, the price authority of the State Council shall determine the on-grid tariffs of renewable energy power generation projects. The price authority of the State Council shall make timely adjustments according to the technology development for the exploitation and utilisation of renewable energy.

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On-grid tariffs refer to the price at which a power company may sell its power to the grid company. According to the Trial Measures for the Management of Prices and Allocation of Costs for Power Generated from Renewable Energy (可再生能源發電價格和費用分攤管理試行辦法) (the “**Trial Measures**”) which was issued in 2006 and applied to all WTE plants approved on or after 1 January 2006, on-grid tariffs for WTE plants comprise a “benchmark on-grid tariff for conventional coal-fired WTE plants in the same province” as determined by the government authorities from time to time, plus a fixed “subsidy premium” of RMB0.25 per kWh. Such renewable energy projects are entitled to the subsidy premium for fifteen years after the commencement of their operations. Starting from 2010, the subsidy premium decreases progressively by 2% per year.

In 2012, the National Development and Reform Committee issued the Notice in relation to the Optimisation of Waste-to-Energy Power Tariff Policy (國家發展改革委關於完善垃圾焚燒發電價格政策的通知) (the “**WTE Power Price Policy Notice**”), which is applicable to all WTE plants approved on or after 1 January 2006 and cancelled the application of the Trial Measures. The WTE Power Price Policy Notice provides that for calculating on-grid tariffs, the amount of on-grid electricity generated shall be based on the amount of MSW processed. The on-grid tariffs for the first 280 kWh of power generated by every tonne of waste shall be RMB0.65 per kWh (VAT inclusive), and any additional power output shall be charged at the same rate as that for coal power projects in neighbouring areas. All of our WTE plants (including our Eco-Tech WTE Plant after its Technological Upgrade is completed and our Zhanjiang WTE Plant after its completion) are subject to the provisions in the WTE Power Price Policy Notice.

In addition, according to the Interim Measure on Allocation of Income from Surcharges on Renewable Energy Power (可再生能源電價附加收入調配暫行辦法) issued in 2007 and the Opinions of the Guangdong Provincial Price Bureau on the Utilisation of Price Leverage to Facilitate the Industrialisation Development of Household Garbage Power Generation (廣東省物價局關於運用價格槓桿促進生活垃圾焚燒發電產業化發展的意見) issued in 2010, for WTE plants approved after 2006, if the power transmission line connecting the WTE plant and the grid was built by the plant, the on-grid tariff may be increased by RMB0.01 to RMB0.03 per kWh, depending on the distance of the power transmission line between the WTE plant and the grid.

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The table below sets out the level of on-grid tariffs (VAT inclusive) applicable to our WTE plants during the Track Record Period:

<b>Effective Date</b>	<b>Eco-Tech WTE Plant (per kWh)</b>	<b>Kewei WTE Plant (per kWh)</b>	<b>China Scivest WTE Plant (per kWh)</b>
1 January 2011	RMB0.58 <i>(Note 1)</i>	RMB0.699 <i>(Note 2)</i>	Not applicable <i>(Note 4)</i>
1 April 2012		RMB0.66 for the first 280 kWh generated by each tonne of MSW; RMB0.531 for any additional power output <i>(Note 3)</i>	
1 October 2013		RMB0.66 for the first 280 kWh generated by each tonne of MSW; RMB0.524 for any additional power output <i>(Note 3)</i>	RMB0.66 for the first 280 kWh generated by each tonne of MSW; RMB0.524 for any additional power output <i>(Note 3)</i>
1 January 2014			
1 September 2014		RMB0.66 for the first 280 kWh generated by each tonne of MSW; RMB0.512 for any additional power output <i>(Note 3)</i>	RMB0.66 for the first 280 kWh generated by each tonne of MSW; RMB0.512 for any additional power output <i>(Note 3)</i>

*Notes:*

1. Under the relevant regulations, WTE projects approved on or after 1 January 2006 and those approved before 1 January 2006 would be subject to two different pricing scales for on-grid tariffs. For further details please refer to the section headed “Regulatory overview — Major regulatory requirements for the WTE Plant — On-grid tariff and subsidy”. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014 and no tariff level applies during its suspension.
2. Since the commencement of the operation of our Kewei WTE Plant and up to 31 March 2012, our Kewei WTE Plant enjoyed the fixed subsidy premium of RMB0.25 per kWh of power generated by every tonne of MSW as stipulated in the Trial Measures. During this period, the on-grid tariffs (VAT inclusive) charged by our Kewei WTE Plant was the total of this “subsidy premium” and the grid tariff applicable to coal power projects in neighbouring areas. This fixed “subsidy premium” was cancelled from 1 April 2012 due to the implementation of the WTE Power Price Policy Notice.
3. Being the aggregate of the on-grid tariffs applicable to WTE Plants (and with reference to the tariff for coal power projects in neighbouring areas in respect of the applicable tariff for any additional power output) and the additional compensation of RMB0.01 per kWh for the power transmission line (which was less than 50 km).
4. China Scivest was acquired and its results was accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

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Pursuant to the Renewable Energy Law, grid companies must enter into power grid connection agreements with WTE plants which generate power by utilising renewable energy resources, and must purchase the full amount of the on-grid power of the renewable WTE plants within the coverage of their grids, provided that certain requirements are met. Furthermore, according to the Notice of the General Office of the State Council on Forwarding the Trial Measures of the National Development and Reform Commission on Energy Saving and Power Generation Dispatch (國務院辦公廳關於轉發發展改革委等部門節能發電調度辦法(試行)的通知) and other relevant regulations, WTE plants are entitled to higher grid dispatch priority than power plants fuelled by nuclear power, natural gas, coal or oil. All of our project companies enjoy or are entitled to enjoy mandatory power purchase and grid connection privileges under these regulations and policies. For further details, please refer to the sections headed “Regulatory overview — Mandatory grid connection and full amount purchase and related agreements” and “Regulatory overview — Priority in dispatch”.

*Waste treatment fees*

Under the waste treatment contracts, MSW suppliers are required to pay us waste treatment fees based on the actual quantity of waste received by us. In Dongguan, the unit price (RMB per tonne) for waste treatment fees is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time, based on the principle of providing reasonable compensation on top of the costs for waste collection, transport and treatment. For further details, please refer to the section headed “Regulatory overview — Major regulatory requirements for the WTE plant — Waste treatment fees”.

The table below sets out the level of waste treatment fees (per tonne of MSW) normally applicable to our WTE plants during the Track Record Period:

<b>Effective Date</b>	<b>Eco-Tech WTE Plant</b>	<b>China Scivest</b>	
		<b>Kewei WTE Plant</b>	<b>WTE Plant (Note 1)</b>
From 1 January 2011	RMB89.0	RMB89.0	N/A
From 1 June 2013	RMB110.0	RMB110.0	N/A
From 1 January 2014 and up to the Latest Practicable Date	RMB110.0	RMB110.0	RMB110.0

*Notes:*

1. China Scivest was acquired and its results was accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.
2. The waste treatment fee for our Zhanjiang WTE Plant is provisionally fixed at RMB81.8 per tonne of MSW under the Zhanjiang Concession Agreement.

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For our Zhanjiang Project which will be constructed and operated on a BOT basis, we will further recognise construction revenue and finance income relating to service concession arrangement. For our China Scivest WTE Plant, which is acquired and also operated on a BOT basis, no finance income relating to service concession arrangement is recognised because the supplemental concession agreements entered into between China Scivest and the Dongguan Municipal Administration in 2012 and 2014 did not contain a guarantee mechanism for the minimum supply of MSW. For further details of our revenue recognition in this regard, please refer to the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications”. For details of the China Scivest Concession Agreement, please refer to the paragraph headed “Our projects — China Scivest WTE Plant — Salient terms of the China Scivest Concession Agreement” in this section below.

**OUR PROJECTS**

**Overview**

We currently have three WTE plants and are in the course of constructing our fourth WTE plant. The following table provides a brief overview of our WTE plants:

	<b>Eco-Tech WTE Plant</b>	<b>Kewei WTE Plant</b>	<b>China Scivest WTE Plant</b>	<b>Zhanjiang WTE Plant</b>
<b>Location</b>	Dongguan, Guangdong Province	Dongguan, Guangdong Province	Dongguan, Guangdong Province	Zhanjiang, Guangdong Province
<b>Installed daily MSW processing capacity</b>	1,200 tonnes (before the Technological Upgrade); 1,800 tonnes (after the Technological Upgrade)	1,800 tonnes	1,800 tonnes	Designed to be 1,000 tonnes for phase one and 500 tonnes for phase two
<b>Installed power generation capacity</b>	36 MW	30 MW	42 MW	30 MW (designed capacity)
<b>Incineration technology</b>	Fluidised bed incineration technology (before the Technological Upgrade)  Moving grate incineration technology (after the Technological Upgrade)	Moving grate incineration technology	Moving grate incineration technology	Moving grate incineration technology

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	<b>Eco-Tech WTE Plant</b>	<b>Kewei WTE Plant</b>	<b>China Scivest WTE Plant</b>	<b>Zhanjiang WTE Plant</b>
<b>Ownership of the respective project companies</b>	Wholly owned subsidiary	Wholly owned subsidiary	Wholly owned subsidiary	55%-owned subsidiary
<b>Business model</b>	BOO	BOO	BOT	BOT
<b>Concession period</b>	Not applicable	Not applicable	Concession period of 24 years from 10 December 2004 to 30 November 2028	Concession period of 28 years from 18 April 2013 to 17 April 2041
<b>Date of the respective project companies becoming part of our Group</b>	17 October 2011 <i>(Note 1)</i>	13 February 2009	1 January 2014	3 April 2013
<b>Commencement of commercial operation</b>	September 2007 <i>(Note 2)</i>	November 2012	August 2014 <i>(Note 3)</i>	Second quarter of 2016 (expected)
<b>Status</b>	Undergoing Technological Upgrade	Currently in commercial operation	Currently in commercial operation	Under development

*Notes:*

1. We established Eco-Tech in June 2003 and disposed 40% of our interest in Eco-Tech in August 2007. We acquired the controlling interest in Eco-Tech on 17 October 2011. For further details, please refer to the section headed “History and development — Corporate history of our principal subsidiaries — Eco-Tech” in this [Redacted].
2. Operation of our Eco-Tech WTE Plant is currently suspended for its Technological Upgrade. It is expected to re-commence trial operation in the third quarter of 2015 and re-commence commercial operation in second quarter of 2016.
3. Operation of the China Scivest WTE Plant was suspended for its Technological Upgrade in October 2011 and its trial operation re-commenced in July 2013. Its commercial operation re-commenced in August 2014.



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**Project investment**

<b>Project</b>	<b>Project type</b>	<b>Actual/ Estimated Capital Investment (note 1) <i>(million RMB)</i></b>	<b>Debt portion (note 2)</b>
Eco-Tech WTE Plant (Technological Upgrade)	BOO	452.4	300
Kewei WTE Plant	BOO	361.1	350
China Scivest WTE Plant (Technological Upgrade)	BOT	415.7	400
Zhanjiang WTE Plant	BOT	470.2	350

*Notes:*

1. Estimated capital investments for our Eco-Tech WTE Plant and Zhanjiang WTE Plant are with reference to their respective feasibility reports.
2. Debt portions for our Eco-Tech WTE Plant and Zhanjiang WTE Plant represent bank facilities which were initially available project in operation. Debt portions for our Kewei WTE Plant and China Scivest WTE Plant represent actual drawdown for capital investments.

Our Kewei WTE Plant has a lower capital investment cost as certain of its production and supporting facilities (such as weighing scales and wastewater treatment systems) are shared with our Eco-Tech WTE Plant and therefore it has a higher debt to total capital investment ratio. The banking facilities drawn for Technological Upgrade of our China Scivest WTE Plant was effected before we acquired China Scivest in January 2014.

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**Power generation and sales**

Pursuant to the Power Purchase Agreements, the total amount of power generated is calculated on a monthly basis. The power fee is paid by the Dongguan Power Supply Bureau via two instalments every month, and each instalment accounts for 50% of the total fees payable for the relevant month.

The tables below set out the relevant information regarding power output and sales of our WTE plants during the Track Record Period. We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group’s operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014. Furthermore, China Scivest was acquired and its results was accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Eco-Tech WTE Plant</b>				
Power generated (MWh)	37,218	242,998	239,204	69,634
Power sold (MWh)	30,646	194,984	198,074	58,638
Sales to generation ratio (%) <i>(Note)</i>	82.3%	80.2%	82.8%	84.2%
<b>Kewei WTE Plant</b>				
Power generated (MWh)	138,499	239,683	238,740	119,770
Power sold (MWh)	123,542	213,446	210,693	104,154
Sales to generation ratio (%) <i>(Note)</i>	89.2%	89.1%	88.3%	87.0%
<b>China Scivest WTE Plant</b>				
Power generated (MWh)	N/A	N/A	N/A	142,433
Power sold (MWh)	N/A	N/A	N/A	129,157
Sales to generation ratio (%) <i>(Note)</i>	N/A	N/A	N/A	90.7%

*Note:* The difference between the power generated and the power sold is attributable to various factors, including but not limited to internal power usage and transmission losses.

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The sales to generation ratio of our Eco-Tech WTE Plant were lower than those of our Kewei WTE Plant and China Scivest WTE Plant because our Eco-Tech WTE Plant adopted the fluidised bed technology, which consume more power during its operation than the moving grate technology adopted by our Kewei WTE Plant and our China Scivest WTE Plant.

*Capacity factor of our WTE Plants*

	<b>Year ended 31 December</b>			<b>Six months ended</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>30 June 2014</b>
<b>Eco-Tech WTE Plant</b>				
Power generation capacity factor <i>(Note)</i>	70.6%	76.8%	75.9%	67.2%
<b>Kewei WTE Plant</b>				
Power generation capacity factor <i>(Note)</i>	52.7%	91.0%	90.8%	91.9%
<b>China Scivest WTE Plant</b>				
Power generation capacity factor <i>(Note)</i>	N/A	N/A	N/A	78.1%

*Note:* Power generation capacity factor = actual power output / (installed capacity x total hours in the operational year/period)

During the Track Record Period, the power generation capacity factor of our Eco-Tech WTE Plant was lower than that of our Kewei WTE Plant because it adopted the fluidised bed technology which operated at a comparatively lower efficiency. Our Eco-Tech WTE Plant is expected to have a higher power generation capacity factor after its Technological Upgrade. The power generation capacity factor of our Eco-Tech WTE Plant decreased in 2014 because it ceased operations for its Technological Upgrade. The power generation capacity factor of our Kewei WTE Plant increased from 2011 to 2012 due to gradual improvement in utilisation hours as our Kewei WTE Plant transitioned from trial operation in 2011 to commercial operation in 2012. Our China Scivest WTE Plant had a lower power generation capacity factor than our Kewei WTE Plant due to its larger installed power generation capacity (42 MW compared to 30 MW for our Kewei WTE Plant), while both plants had the same installed daily MSW processing capacity of 1,800 tonnes.

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**MSW processed and utilisation rate**

The following table sets out the actual amount of MSW received and processed by and the utilisation of our WTE plants during the Track Record Period. We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group’s operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014. Furthermore, China Scivest was acquired and its results was accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

	Year ended 31 December			Six months ended
	2011	2012	2013	30 June 2014
<b>Eco-Tech WTE Plant</b>				
Received MSW (tonnes)	70,271.5	429,796.8	399,067.6	104,422.5
Processed MSW (tonnes) (Note 1)	69,731.1	419,432.7	394,480.4	107,950.0
Designed processing capacity (tonnes) (Note 2)	73,200.0	439,200.0	438,000.0	144,000.0
Utilisation rate (Note 3)	95.3%	95.5%	90.1%	75.0%
<b>Kewei WTE Plant</b>				
Received MSW (tonnes)	377,114.5	676,153.2	614,712.7	290,810.6
Processed MSW (tonnes) (Note 1)	341,057.5	641,519.4	586,640.7	277,711.2
Designed processing capacity (tonnes) (Note 2)	657,000.0	658,800.0	657,000.0	325,800.0
Utilisation rate (Note 3)	51.9%	97.4%	89.3%	85.2%
<b>China Scivest WTE Plant</b>				
Received MSW (tonnes)	N/A	N/A	N/A	363,374.3
Processed MSW (tonnes) (Note 1)	N/A	N/A	N/A	330,817.1
Designed processing capacity (tonnes) (Note 2)	N/A	N/A	N/A	325,800.0
Utilisation rate (Note 3)	N/A	N/A	N/A	101.5%

*Notes:*

1. Processed waste excludes leachate generated from the MSW that we collect.
2. The designed processing capacity = designed daily processing capacity x the number of days in the operational year/period.
3. Utilisation rate = Processed waste in the relevant year/period divided by the designed processing capacity over the relevant operational year/period x 100%.

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Our Eco-Tech WTE Plant had a lower utilisation rate in the first half of 2014 because it ceased operations for its Technological Upgrade. Prior to ceasing its operations in April 2014 for the Technological Upgrade, our Eco-Tech WTE Plant processed more MSW than it received in the first half of 2014 because it processed MSW carried forward from the year ended 31 December 2013. The utilisation rate of our Kewei WTE Plant increased from 2011 to 2012 due to gradual improvement in utilisation hours as our Kewei WTE Plant transitioned from trial operation in 2011 to commercial operation in 2012. The utilisation rates of our Eco-Tech WTE Plant and Kewei WTE Plant decreased starting from the end of 2012 because our MSW suppliers began to supply us with MSW which had a relatively higher heat value, which caused a reduction in the amount of MSW we processed but produced a similar level of power output. The utilisation rate of our China Scivest WTE Plant exceeded 100% for the six months ended 30 June 2014 because its incinerators were able to process a volume of MSW which was greater than the designed processing capacity of 1,800 tonnes per day, due to the relatively lower actual heat value of the MSW supplied, which allowed more MSW to be processed to produce a similar level of power output.

### **Eco-Tech WTE Plant**

#### *Overview*

Our Eco-Tech WTE Plant operates under a BOO operation model and is currently undergoing its Technological Upgrade, which is expected to increase its designed daily MSW processing capacity from 1,200 tonnes to 1,800 tonnes, while maintaining its installed power generation capacity of 36 MW. During the Technological Upgrade, all business operations of our Eco-Tech WTE Plant are suspended.

#### *Waste treatment arrangements*

Prior to its Technological Upgrade, our Eco-Tech WTE Plant sourced MSW from various governmental bodies at county or town level in Dongguan. Under the waste treatment contracts, MSW suppliers are required to pay us waste treatment fees based on the actual quantity of waste received by us. During the Track Record Period, the unit price for waste treatment fees applicable to our Eco-Tech WTE Plant ranged from RMB89.0 per tonne to RMB110.0 per tonne. The unit price is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time. For further details, please refer to the paragraph headed “Business model — Our sources of revenue — Waste treatment fees” above.

#### *Waste treatment contracts with Eco-Tech entered into before its Technological Upgrade*

During the Track Record Period, Eco-Tech had entered into waste treatment contracts with eight MSW suppliers, all of whom are Independent Third Parties. These waste treatment contracts have a term of 28 years each. The MSW supply volume stipulated in these contracts ranges from 50 to 300 tonnes per day. The total contracted MSW supply volume was 1,125 tonnes per day before its Technological Upgrade.

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From the commencement of the trial operation of the Kewei WTE Plant, Kewei managed to enter into a number of waste treatment contracts with terms of less than two years which expired in 2013, thereby reserving spare processing capacity in anticipation of the Technological Upgrade of our Eco-Tech WTE Plant. Before its Technological Upgrade, we negotiated with the MSW suppliers of Eco-Tech and secured their agreement for Eco-Tech’s obligations to be assigned to Kewei during the Technological Upgrade of our Eco-Tech WTE Plant. Eco-Tech and Kewei entered into an agreement dated 27 May 2014 (the “**Assignment Agreement**”) stating that obligations and rights of Eco-Tech pursuant to the waste treatment contracts between Eco-Tech and the MSW suppliers would be assigned to Kewei during the Technological Upgrade. Under the Assignment Agreement, the fees accruing for the waste treatment services rendered by Kewei on behalf of Eco-Tech will be received by Kewei directly. As advised by our PRC Legal Advisers, the entire assignment arrangement (including the Assignment Agreement) is valid and enforceable under applicable PRC laws. Since the suspension of operation of our Eco-Tech WTE Plant for Technological Upgrade, these MSW waste suppliers had started to transport their MSW to the Kewei WTE Plant and pay the corresponding waste treatment fees directly to Kewei. It is expected that these arrangements will end after the Technological Upgrade is completed. For further details, please refer to the paragraph headed “Technological Upgrade of our Eco-Tech WTE Plant” below.

### *Power purchase arrangements*

Eco-Tech has entered into a grid-connection agreement and a dispatch agreement with the Dongguan Power Supply Bureau. These two agreements together provide detailed technical requirements for grid connection, power generation and dispatch and set out the scope of the services undertaken by Eco-Tech.

We sell the power generated from our Eco-Tech WTE Plant to the Dongguan Power Supply Bureau pursuant to the Eco-Tech Power Purchase Agreement signed on 30 December 2011. Prior to the Eco-Tech Power Purchase Agreement, Eco-Tech sold power to the Dongguan Power Supply Bureau pursuant to a power purchase agreement dated 28 April 2009. The Eco-Tech Power Purchase Agreement is a standard form contract with terms similar to those of the model power purchase agreement (大用戶與發電企業直接交易購售電合同 (示範文本)) issued jointly by the State Electricity Regulatory Commission (國家電力監管委員會) and the State Administration for Industry and Commerce (國家工商行政管理總局).

The key terms of the Eco-Tech Power Purchase Agreement are set out below:

#### *(a) Effective period*

The agreements shall be effective for one year from execution. Upon expiry of the one year period, the agreement remains effective if there is no objection from either parties. If there is any disagreement in the implementation of the agreement, the disputing party may serve a written notice on the other party. Both parties should then seek to resolve the dispute within 30 days of the notice, failing which the agreement shall be automatically terminated.

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*(b) Power to be sold*

The agreement provides that the project companies may sell power subject to the practical operation of the power grid and demand for power. The actual power output to be sold shall be within the range of -2.5% and +2.5% of the planned power output issued by the authorised control centre of the Dongguan Power Supply Bureau. Any surplus or shortfall in the actual power output shall be dealt with in accordance with the technical requirements under the Implementation Details of the Operation of the Grid of the Southern Region Power Plants (南方區域發電廠併網運行管理實施細則).

*(c) Price of power and payment*

The price of power is determined by the pricing bureau of the relevant government authorities. The agreement sets out the procedures for, and the calculation of, payments. Payments are made in two instalments each month.

During the Track Record Period, the on-grid tariffs charged by our Eco-Tech WTE Plant was at the uniform price of RMB0.58 per kWh (VAT inclusive) up until the suspension of its operations due to its Technological Upgrade, in accordance with the regulations which were applicable to WTE plants approved before 1 January 2006. After completion of its Technological Upgrade, the on-grid tariff which will be charged by our Eco-Tech WTE Plant will be RMB0.65 per kWh (VAT inclusive) for the first 280 kWh of power generated by every tonne of MSW plus compensation for the power transmission line, in accordance with the currently applicable regulations. For further details, please refer to the paragraph headed “Business model — Our sources of revenue — On-grid tariffs” above.

The Dongguan Power Supply Bureau has agreed to suspend the obligations of Eco-Tech under the Eco-Tech Power Purchase Agreement, the grid-connection agreement and the dispatch agreement during the Technological Upgrade of our Eco-Tech WTE Plant.

*Technological Upgrade of our Eco-Tech WTE Plant*

Prior to its Technological Upgrade, our Eco-Tech WTE Plant adopted fluidised bed incineration technology which was fuelled by approximately 80% to 88% MSW and 12% to 20% coal (by weight). In order to increase its operational efficiency and to enhance its profit margin, and in anticipation of new and more stringent environmental standards that may impose on WTE plants in the future, we have launched the Technological Upgrade of our Eco-Tech WTE Plant to replace the fluidised bed incinerators with moving grate incinerators and to upgrade certain other facilities at our Eco-Tech WTE Plant. The new moving grate incinerators adopt an incineration technology which do not require coal as an auxiliary fuel in the incineration process, which would reduce our operating cost and allow us to avoid any financial impact which may be caused by the price volatility of coal. The moving grate incineration technology also requires fewer staff and thus would further reduce our operating costs. The Technological Upgrade started in April 2014 and commercial operation is expected to re-commence by the second quarter of 2016.

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Our Directors currently estimate that the Technological Upgrade will require a total capital investment of approximately RMB452.4 million, of which approximately 34% will be funded by shareholder capital contribution and approximately 66% will be funded by bank loans. Based on the prevailing applicable on-grid tariff and waste treatment fees, it is estimated that the Technological Upgrade will lead to loss of revenue of approximately RMB101.5 million and RMB94.6 million for the years ending 31 December 2014 and 2015, respectively. We have incurred staff redundancy costs of HK\$5.2 million and have written off assets of HK\$9.9 million as a result of the Technological Upgrade of our Eco-Tech WTE Plant, which were all recognised and paid, where applicable, during the six months ended 30 June 2014. No impairment on goodwill was recognised due to the Technological Upgrade of our Eco-Tech WTE Plant as the determination of goodwill in 2011 had taken into account of the expected Technological Upgrade for the Eco-Tech WTE Plant.

According to the Technical Report prepared by Mott MacDonald (Beijing) Limited (the “**Technical Consultant**”), based on the satisfactory performance of our Kewei WTE Plant and China Scivest WTE Plant, the Technical Consultant had no concerns regarding the Technological Upgrade of our Eco-Tech WTE Plant. For further details, please refer to the Technical Report in Appendix IV to this [Redacted].

(i) Scope of the Technological Upgrade

Prior to the Technological Upgrade, our Eco-Tech WTE Plant had a waste processing capacity of 1,200 tonnes and a total installed power generation capacity of 36 MW. Our Eco-Tech WTE Plant utilised fluidised bed incineration technology, which requires coal as an auxiliary fuel for the incineration of MSW.

The crux of the Technological Upgrade is the replacement of the four existing fluidised bed incinerators with three new moving grate incinerators, thereby expanding the daily MSW processing capacity to 1,800 tonnes. For a full comparison of the facilities of our Eco-Tech WTE Plant prior to and after the completion of its Technological Upgrade, please refer to the paragraph headed “Our WTE process” in this section below.

(ii) Construction plan of the Technological Upgrade

We have completed the following major steps for the Technological Upgrade:

<b>Major steps</b>	<b>Completion date</b>
1. Completion of feasibility studies	September 2013
2. Completion of the environmental impact appraisal	April 2014
3. Engagement of demolition contractors, suspension of operation and commencement of demolition work	April 2014
4. Receiving project approval from Guangdong DRC	July 2014



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We expect that the remaining major steps for the Technological Upgrade will be undertaken in accordance with the following timetable:

<b>Major steps</b>	<b>Expected date</b>
1. Commence construction works	Fourth quarter of 2014
2. Commence negotiations with relevant government authorities regarding MSW supply and power purchase arrangements	First quarter of 2015
3. Commence trial operation ( <i>Note</i> )	Third quarter of 2015
4. Commence commercial operation	Second quarter of 2016

*Note:* During the trial operation stage, Eco-Tech will charge waste treatment fees and on-grid tariffs at the same rates for commercial operation.

The construction work of the Technological Upgrade will be undertaken by various contractors which will be engaged following a tender process. The tender documents will set out the objective criteria the respective tendering contractors are expected to meet. The tender documents will also include the relevant standard contracts to be entered into between Eco-Tech and the contractors awarded with the tender. As at the Latest Practicable Date, we have only engaged contractors for the demolition work and all of these contractors are Independent Third Parties. Up to the Latest Practicable Date, we have not yet issued tenders for subsequent construction work, as we are in the process of applying for relevant approvals and licences to commence construction work. We expect to issue tenders after obtaining the relevant approvals and licences in the fourth quarter of 2014.

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(iii) Regulatory requirements

The following major approvals are required for the Technological Upgrade:

<b>Licence/permit/approval</b>	<b>Government authorities</b>	<b>Actual/expected time to obtain the relevant licence/permit/approval (if applicable)</b>
<b>Preparatory stage</b>		
Approval for environmental impact appraisal (環境影響評價批覆)	Dongguan Environmental Protection Bureau (東莞市環境保護局)	Obtained on 4 April 2014
Project approval (立項批覆)	Guangdong DRC	Obtained on 7 July 2014
Construction work planning permit (建設工程規劃許可證)	Dongguan Urban-Rural Planning Bureau (東莞市城鄉規劃局)	Expected to be obtained in the fourth quarter of 2014
Construction work commencement permit (建築工程施工許可證)	Dongguan Housing and Urban-Rural Development Bureau (東莞市住房和城鄉建設局)	Expected to be obtained in the fourth quarter of 2014
<b>Completion and acceptance stage</b>		
Construction work completion and acceptance (建築工程竣工驗收)	Dongguan Housing and Urban-Rural Development Bureau (東莞市住房和城鄉建設局)	Expected to be obtained in the third quarter of 2015
Environmental protection testing acceptance on completion of the construction project (項目工程環境保護竣工驗收)	Dongguan Environmental Protection Bureau (東莞市環境保護局)	Expected to be obtained in the second quarter of 2016

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(iv) Financing arrangement

Eco-Tech entered into a loan agreement and a supplemental loan agreement, both dated 18 June 2014 with Dongguan Rural Commercial Bank (together the “**Loan Agreements**”) pursuant to which the bank agreed in principle and subject to certain conditions to grant a revolving loan facility with a credit limit of RMB300 million for the period from 18 June 2014 to 17 June 2022. These conditions include (i) obtaining requisite approvals in accordance with the terms of the loan agreement; (ii) such terms stipulated in the loan agreement have not been breached; and (iii) the guarantee provided by Kewei is still effective and subsisting. Our Directors expect our Group to fulfil all such conditions throughout the term of the loan.

Up to the Latest Practicable Date, we have drawn down RMB28 million from such loan facility, which is to be repaid by July 2017. The applicable interest rate is 1.15 times of the bank’s base interest rate, to be adjusted annually, and the monthly interest rate for the first year is approximately 0.589%.

The following table sets out a breakdown of the estimated capital investment in relation to the Technological Upgrade of our Eco-Tech WTE Plant:

	<i>RMB million</i>	<i>Equivalent amount in HKD million</i>
Construction expenses	133.1	167.7
Equipment expenses	195.6	246.5
Installation expenses	65.0	81.9
Other expenses	<u>58.7</u>	<u>74.0</u>
<b>Total:</b>	<b><u>452.4</u></b>	<b><u>570.1</u></b>

Our Directors currently estimate RMB152.4 million (equivalent to approximately HK\$192.0 million) or approximately 34% of the total capital investment for the Technological Upgrade will be funded by shareholder capital contribution and RMB300 million (equivalent to approximately HK\$378.0 million) or approximately 66% of the total capital investment will be funded by bank loans.

(v) Interim arrangement during the suspension of operations

During the Technological Upgrade, MSW processing and power generation by our Eco-Tech WTE Plant are suspended. Contracts for supply of materials other than MSW (such as coal) were terminated in accordance with the relevant terms. The Dongguan Power Supply Bureau has agreed to suspend the obligations of Eco-Tech under the Eco-Tech Power Purchase Agreement, the grid connection agreement and the dispatch agreement during the Technological Upgrade of our Eco-Tech WTE Plant.

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Separately, we had negotiated with the relevant MSW suppliers and secured their agreement for Eco-Tech’s obligations to be assigned to Kewei during the Technological Upgrade. Please refer to the paragraph headed “Our projects — Eco-Tech WTE Plant — Waste treatment contracts with Eco-Tech entered into before its Technological Upgrade” for further details. Further, in order to reduce labour cost during the period of suspension, Eco-Tech terminated employment contracts with certain redundant employees who were mainly responsible for tasks related to the daily operation of our Eco-Tech WTE Plant. The total redundancy expenses amounted to approximately HK\$5.2 million and were paid and recognised during the six months ended 30 June 2014. As advised by our PRC Legal Advisers, the relevant employment contracts with these redundant employees were properly terminated and Eco-Tech is not subject to any outstanding liabilities. The remaining employees of Eco-Tech will receive further training, and the nature of which will depend on their positions and responsibilities. Employees who were made redundant due to the Technological Upgrade of our Eco-Tech WTE Plant will enjoy priority in future recruitment. We currently plan to start the recruitment of new employees in the beginning of 2015, and that the new employees will complete their training for the operation of our upgraded Eco-Tech WTE Plant before trial operation commences.

### (vi) Investment payback period

The estimated project investment payback period for the Technological Upgrade of our Eco-Tech WTE Plant (without taking into account the pre-existing investments and debt service requirements of our Eco-tech WTE Plant) is approximately 5.9 years. In determining this estimated investment payback period, we have made the following key assumptions: (i) the waste treatment fees will remain at RMB110 per tonne; (ii) the on-grid tariffs will be kept at RMB0.65 per kWh (VAT inclusive) for the first 280 kWh generated by every tonne of MSW and RMB0.502 per kWh (VAT inclusive) for any additional power output; (iii) the operation costs will be constant; (iv) there will be a subsidy of RMB0.01/kWh for each 50km section of power transmission line between the plant and grid; and (v) the total capital investment for the Technological Upgrade of our Eco-Tech WTE Plant will be approximately RMB452.4 million, which will be financed as to approximately 34% by shareholders’ capital contributions and as to the remaining balance of approximately 66% by bank loans.

### **Kewei WTE Plant**

#### *Overview*

Our Kewei WTE Plant operates under a BOO operation model and the construction of the plant was completed in 2011. It commenced trial operation in January 2011 and commenced commercial operation in November 2012. Our Kewei WTE Plant has a designed daily MSW processing capacity of 1,800 tonnes and an installed power generation capacity of 30 MW. Our Kewei WTE Plant has employed moving grate incineration technology since the commencement of its operations.

According to the Technical Report prepared by Mott MacDonald (Beijing) Limited (the “**Technical Consultant**”), the annual utilisation hours and power output of our Kewei WTE Plant were above the national average level. Based on the past experience of its engineers, the Technical Consultant was of the view that the operating parameters (including the waste processing capacity,

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operation hours and the management level of the whole plant) of our Kewei WTE Plant were generally better than the operating parameters of the same type of WTE plants in the PRC and its actual operation was slightly better than that in the feasibility study conducted prior to the construction of the Kewei WTE Plant. For further details, please refer to the Technical Report in Appendix IV to this [Redacted].

### *Waste treatment arrangements*

Our Kewei WTE Plant sources MSW from various governmental bodies at county or town level in Dongguan. Under the waste treatment contracts, MSW suppliers are required to pay us waste treatment fees based on the actual quantity of waste delivered. Pursuant to the relevant laws and regulations, the unit price is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time. For further details, please refer to the paragraph headed “Business model — Our sources of revenue — Waste treatment fees” above. During the Track Record Period, the unit price for waste treatment fees charged by our Kewei WTE Plant normally ranged from RMB89.0 per tonne to RMB110.0 per tonne.

In anticipation of the Technological Upgrade of our Eco-Tech WTE Plant, Kewei did not renew pre-existing waste treatment contracts or enter into new waste treatment contracts, so that the obligations and rights of Eco-Tech pursuant to the waste treatment contracts between Eco-Tech and the MSW suppliers may be assigned to Kewei during the Technological Upgrade. As at the Latest Practicable Date, the total amount of MSW undertaken to be treated by Kewei was 1,645 tonnes per day, of which a contracted supply of 1,125 tonnes per day was assigned from Eco-Tech pursuant to the Assignment Agreement. For further details, please refer to the paragraph headed “Our projects — Eco-Tech WTE Plant — Waste treatment contracts with Eco-Tech entered into before its Technological Upgrade” above.

### *Power purchase arrangements*

Kewei has entered into a grid-connection agreement and a dispatch agreement with the Dongguan Power Supply Bureau. These two agreements together provide detailed technical requirements for grid connection, power generation and dispatch and set out the scope of the services undertaken by Kewei.

We sell the power generated from our Kewei WTE Plant to the Dongguan Power Supply Bureau pursuant to the Kewei Power Purchase Agreement dated 30 December 2011. Prior to the Kewei Power Purchase Agreement, Kewei entered into a power purchase agreement with the Dongguan Power Supply Bureau dated 30 December 2010 for a term of one year which expired on 29 December 2011. The Kewei Power Purchase Agreement has substantially the same key terms as the Eco-Tech Power Purchase Agreement. Please refer to the key terms of the Eco-Tech Power Purchase Agreement set out in the paragraph headed “Our projects — Eco-Tech WTE Plant — Power purchase arrangements” for further details. Based on the regulations applicable to the on-grid tariffs charged by WTE plants, as at the Latest Practicable Date, the on-grid tariffs charged by our Kewei WTE Plant, after the increase for its power transmission line length, has two price tiers: (i) RMB0.66 per kWh (VAT inclusive) for

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the first 280 kWh of power generated by every tonne of MSW processed and (ii) RMB0.512 per kWh (VAT inclusive) for any additional power output generated. For further details of the on-grid tariffs charged by our Kewei WTE Plant during the Track Record Period, please refer to the paragraph headed “Business model — Our sources of revenue — On-grid tariffs” above.

### **China Scivest WTE Plant**

#### *Overview*

To bolster our dominant market position in Dongguan, Guangdong Province, we acquired China Scivest in January 2014, which operates our China Scivest WTE Plant. For further details of the background of China Scivest, please refer to the section headed “History and development — Corporate history of our principal subsidiaries — China Scivest” in this [Redacted].

Our China Scivest WTE Plant has a designed daily MSW processing capacity of 1,800 tonnes and an installed power generation capacity of 42 MW. We operate our China Scivest WTE Plant pursuant to a BOT concession. The BOT concession right to design, construct, operate and manage the China Scivest WTE Plant will expire on 30 November 2028. Upon the expiry of the concession period, our China Scivest WTE Plant will be transferred to Dongguan Municipal Administration without compensation. After re-commencing its trial operation upon the completion of its Technological Upgrade in July 2013, our China Scivest WTE Plant adopted the moving grate incineration technology similar to the one adopted by our Kewei WTE Plant.

According to the Technical Report, the annual utilisation hours and power output of our China Scivest WTE Plant were above the national average level. The operating parameters of our China Scivest WTE Plant (including its waste processing capacity, operation hours and the management level of the whole plant) would be better than that of the same type of WTE plants in the PRC. For further details, please refer to the Technical Report in Appendix IV to this [Redacted].

#### *Salient terms of the China Scivest Concession Agreement*

China Scivest entered into a concession agreement with the Dongguan Municipal Administration on 10 December 2004. Due to the Technological Upgrade of the China Scivest WTE Plant, the parties entered into supplemental agreements in June 2012 and March 2014 to upgrade a production facility and to increase the minimum volume of daily MSW supply, respectively. The salient terms of the China Scivest Concession Agreement are as follows:

- *Supply of MSW.* Dongguan Municipal Administration has undertaken to provide China Scivest with not less than 1,600 tonnes of MSW per day from five specified areas in Dongguan. If the total supply from these areas is less than 1,600 tonnes per day, Dongguan Municipal Administration will ensure that the MSW from these areas will be supplied to China Scivest exclusively.
- *Key obligations during the concession period.* Key obligations of China Scivest during the concession period include: (i) maintaining weighing stations in a lawful condition; (ii)

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MSW storage capacity should be at least 7,000 tonnes; and (iii) the daily processing volume of China Scivest WTE Plant would not be affected by any repair and maintenance taking place and should continue to be at least 1,600 tonnes of MSW per day during such repair and maintenance periods.

- *Key obligations before/upon expiry of the concession period.* China Scivest is required to transfer the ownership of the China Scivest WTE Plant (which should remain in good condition), together with the relevant technical information and know-how to Dongguan Municipal Administration upon the expiry of the concession period without compensation. During the last year of the concession period, Dongguan Municipal Administration and China Scivest shall jointly appoint a national authority to examine the facilities of the WTE plant. China Scivest undertakes to carry out repairs at its own cost if such national authority considers there is a need to do so. Within the first month of the last year of the concession period, China Scivest will need to pay RMB10 million in connection with the transfer, which would be returned to China Scivest after the transfer subject to certain conditions being met. Prior to the transfer date, China Scivest shall settle all of its debts, including all forms of pledges, charges and security interests and terminate all contracts related to the operation.
- *Termination clauses.* If one party breaches the China Scivest Concession Agreement, the non-defaulting party shall notify the defaulting party in writing. Such written notice shall contain the particulars of the breach(es). The non-defaulting party shall have the right to terminate the China Scivest Concession Agreement by written notice if the defaulting party fails to rectify the breach(es) within 90 days of the notice.

### *Waste treatment arrangements*

Our China Scivest WTE Plant sources MSW from various governmental bodies at town or district level and private companies in Dongguan. Under the waste treatment contracts, MSW suppliers are required to pay us waste treatment fees based on the actual quantity of waste received by us. Pursuant to the relevant laws and regulations, the unit price is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time. Since 1 January 2014 and up to the Latest Practicable Date, the unit price for waste treatment fees charged by our China Scivest WTE Plant was RMB110.0 per tonne. For further details, please refer to the paragraph headed “Business model — Our sources of revenue — Waste treatment fees” above.

As at the Latest Practicable Date, China Scivest had a total contracted MSW supply volume of 1,603 tonnes per day, with 1,600 tonnes per day contracted under long-term agreements of approximately 14 years and three tonnes per day contracted under short-term agreements of approximately one year. Up to the Latest Practicable Date, the incinerators are able to process a volume of MSW which is greater than the designed processing capacity of 1,800 tonnes per day due to the relatively lower actual heat value of the MSW supplied.

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### *Power purchase arrangements*

China Scivest has entered into a grid-connection agreement and a dispatch agreement with the Dongguan Power Supply Bureau. These two agreements together provide detailed technical requirements for grid connection, power generation and dispatch and set out the scope of the services undertaken by China Scivest.

We sell the power generated from our China Scivest WTE Plant to the Dongguan Power Supply Bureau pursuant to the China Scivest Power Purchase Agreement dated 29 November 2011. Prior to the China Scivest Power Purchase Agreement, China Scivest sold power to the Dongguan Power Supply Bureau pursuant to a power purchase agreement dated 8 April 2009. The China Scivest Power Purchase Agreement has substantially the same key terms as the Eco-Tech Power Purchase Agreement. Please refer to the key terms of the Eco-Tech Power Purchase Agreement set out in the paragraph headed “Our projects — Eco-Tech WTE Plant — Power purchase arrangements” for further details. Based on the regulations applicable to the on-grid tariffs charged by WTE plants, as at the Latest Practicable Date, the on-grid tariffs charged by our China Scivest WTE Plant, after the increase for its power transmission line length, has two price tiers: (i) RMB0.66 per kWh (VAT inclusive) for the first 280 kWh of power generated by every tonne of MSW processed and (ii) RMB0.512 per kWh (VAT inclusive) for any additional power output generated. For further details, please refer to the paragraph headed “Business model — Our sources of revenue — On-grid tariffs” above.

### **Zhanjiang WTE Plant**

#### *Current contractual arrangements*

Zhanjiang Yuefeng is a 55% owned subsidiary of our Group, with the remaining 45% interest held by High Point. Zhanjiang Yuefeng entered into a concession agreement dated 18 April 2013 (the “**Zhanjiang Concession Agreement**”) with the Zhanjiang DRB under which Zhanjiang Yuefeng undertook to construct the Zhanjiang WTE Plant in two phases (with daily processing capacity of 1,000 tonnes for phase one and additional 500 tonnes for phase two). The Zhanjiang Concession Agreement mainly sets out the contractual arrangements regarding phase one of the Zhanjiang WTE Plant. The concession period is 28 years starting from 18 April 2013. Subject to the population growth and development of Zhanjiang, Zhanjiang DRB may issue a direction in relation to phase two to Zhanjiang Yuefeng in 2018 and may then enter into a separate concession agreement with Zhanjiang Yuefeng.

Pursuant to the Zhanjiang Concession Agreement, we were granted the exclusive right to develop and operate a WTE facility in Zhanjiang. The estimated capital investment for phases one and two are approximately RMB470.2 million (equivalent to approximately HK\$592.5 million) and RMB130.4 million (equivalent to approximately HK\$164.3 million), respectively. Under the Zhanjiang Concession Agreement, the share capital of Zhanjiang Yuefeng shall not be less than 30% of the total investment in the Zhanjiang Project. As such, Zhanjiang Yuefeng is expected to finance approximately



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25% (RMB120.2 million or equivalent to approximately HK\$151.5 million) of the investment of phase one of the Zhanjiang Project by share capital contribution and approximately 75% (RMB350 million or equivalent to approximately HK\$441 million) by bank loans. The concession period is 28 years starting from 18 April 2013.

### *Salient terms of the Zhanjiang Concession Agreement*

- *Milestone dates.* The Zhanjiang Concession Agreement sets out milestone dates by which Zhanjiang Yuefeng needs to complete certain tasks, and the key milestone dates are as follows:

<b>Task(s)</b>	<b>Milestone date</b>	<b>Actual/ expected milestone completion date</b>
Zhanjiang Yuefeng to begin construction ( <i>note 1</i> )	18 June 2014	March 2014
Completion of the construction work of phase one (with daily waste processing capacity of 1,000 tonnes) ( <i>note 2</i> )	18 June 2015	Third quarter of 2015
Trial operation commences	18 July 2015	Third quarter of 2015
Environmental protection testing acceptance on completion of the construction project (建設項目竣工環境保護驗收) ( <i>note 2</i> )	18 October 2015	First quarter of 2016

*Note:*

1. Construction work includes preparatory work such as connecting the site’s access to water, electricity and other roads and levelling of the site (三通一平).
  2. Although we anticipate a delay in completing the construction of phase one of the Zhanjiang Project, we have obtained a written notice from the Zhanjiang DRB to defer the milestone dates subsequent to the commencement of construction milestone date. For further details, please refer to the paragraph headed “Current status of the Zhanjiang Project” in this subsection below.
- *Guaranteed minimum supply volume and adjustment in the supply volume of permitted MSW.* Zhanjiang DRB or other governmental bodies designated by the Zhanjiang Municipal People’s Government guarantee to supply or commission a third party to supply Zhanjiang Yuefeng with a daily average of not less than 800 tonnes per day (i.e. 292,000 tonnes per year) of permitted MSW. If the actual volume of MSW for a particular year is less than the annual guaranteed supply, the Zhanjiang DRB shall compensate us for the shortfall based on the prevailing waste treatment fee plus any extra expenses which may be incurred by Zhanjiang Yuefeng due to such shortfall.
  - *Waste treatment fee.* The initial indicative waste treatment fee for the Zhanjiang WTE Plant is fixed at RMB81.8 per tonne. After construction of the Zhanjiang WTE Plant is completed, the waste treatment fee shall be adjusted based on whether actual construction costs incurred by

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Zhanjiang Yuefeng exceeds or falls below the total investment amount stated in the tender submitted by the JV Partners. Every two years after this initial adjustment, Zhanjiang Yuefeng or Zhanjiang DRB (or other governmental bodies designated by the Zhanjiang Municipal People’s Government) may propose to adjust the waste treatment fee in accordance with an adjustment mechanism which takes into account the prevailing consumer price index, producer price index, actual operating costs incurred by Zhanjiang Yuefeng and adjustments to the on-grid tariff. Furthermore, waste treatment fees may be reduced if the Zhanjiang WTE Plant fails to meet certain environmental standards in the first assessment after the completion of the construction of the WTE plant.

- *On-grid tariffs.* The on-grid tariffs for the Zhanjiang WTE Plant will follow the tariff rate set by the National Development and Reform Committee in 2012, which was set at RMB0.65 per kWh (VAT inclusive) for the first 280 kWh generated by every tonne of MSW and at RMB0.521 per kWh (VAT inclusive) for any additional power output (the same as coal-fired power projects in neighbouring areas) as at the date of the Zhanjiang Concession Agreement. In addition, there will be an additional compensation of RMB0.01/kWh (VAT inclusive) for the power transmission line between the plant and grid. The on-grid tariffs are subject to adjustment from time to time in accordance with the prevailing regulations.
- *Key obligations before/upon expiry of the concession.* Upon expiry of the concession, Zhanjiang Yuefeng shall transfer without compensation to the Zhanjiang DRB (or any body designated by Zhanjiang Municipal People’s Government) the Zhanjiang WTE Plant, including the relevant equipment, technologies, movable properties, contracts, documents and all properties and information as requested. Zhanjiang Yuefeng shall ensure that at least 95% of the assets of the Zhanjiang WTE Plant are in good condition. Zhanjiang Yuefeng shall conduct a full maintenance check on the Zhanjiang WTE Plant not earlier than 18 months before the transfer date and shall complete any necessary maintenance six months before the transfer date. Furthermore, Zhanjiang Yuefeng shall perform regular maintenance and meet general production needs and provide consultation services for the Zhanjiang WTE Plant for a further 12 months after the transfer date.
- *Penalty for delays.* Failure to meet the milestone dates may subject Zhanjiang Yuefeng to penalty payments. The Zhanjiang WTE Plant is required to begin trial operation by the stipulated date (i.e. 18 July 2015) and obtain the environmental protection testing acceptance on completion of the construction project (建設項目竣工環境保護驗收) within six months of commencement of the trial operation, and any delay of more than 30 days for the trial operation or for obtaining the environmental protection testing acceptance would subject Zhanjiang Yuefeng to a penalty payment of RMB100,000. The penalty will increase to RMB200,000 and RMB300,000 if such delay exceeds 60 days and 90 days, respectively. An additional penalty of RMB300,000 would be fined for every 30 days thereafter. As we anticipate a delay in completing the construction of phase one of the Zhanjiang Project, we have obtained a written notice from the Zhanjiang DRB to defer the milestone dates subsequent to the commencement of construction milestone date. For further details, please refer to the paragraph headed “Current status of the Zhanjiang Project” in this subsection below.
- *Termination clauses.* The Zhanjiang Concession Agreement may be terminated if Zhanjiang Yuefeng fails to perform certain tasks, such as failing to complete the work in accordance with the milestone dates, ceasing construction before the planned completion date of the construction, or failing to commence the environmental protection testing acceptance of the WTE plant within 365 days from the planned preliminary completion date.

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### *Background of High Point*

High Point, was incorporated in the PRC on 24 December 2009 with a registered capital of RMB1 billion. High Point is primarily engaged in industrial investment, enterprise investment consultancy service as well as trading business. Pursuant to a project agreement entered into between High Point, Eco-Tech and Kewei, High Point provided 45% of the capital contribution that was required to set up Zhanjiang Yuefeng. Prior to entering into the Zhanjiang Concession Agreement, High Point was an Independent Third Party. For future capital contributions, the existing shareholders shall have the right to make contribution pro rata to the proportion of existing shareholding.

### *Financing of the Zhanjiang Project*

Zhanjiang Yuefeng has a registered capital of RMB150 million. As at the Latest Practicable Date, the JV Partners had contributed cash for their respective shares of the registered capital of Zhanjiang Yuefeng as follows:

<b>Party</b>	<b>Contribution Amount (RMB)</b>	<b>Holding in Zhanjiang Yuefeng</b>
Eco-Tech	30.0 million	20%
Kewei	52.5 million	35%
High Point	67.5 million	45%

The capital injections of the JV Partners to Zhanjiang Yuefeng will fund 30% of the funding need of the Zhanjiang Project and the remaining balance of the funding need will be funded by long term bank loans. Zhanjiang Yuefeng entered into a loan agreement on 18 August 2014 with Bank of China Limited Zhanjiang Branch (“**BOC**”) pursuant to which BOC agreed to grant a loan facility of up to RMB350 million to Zhanjiang Yuefeng subject to the terms and conditions of the loan agreement. The main terms of the loan agreement are as follows:

*Loan repayment period:* The loan repayment period shall be 120 months from the date of the first drawdown.

*Interest rate:* The applicable interest rate shall be 1.10 times the PBOC five-year-plus loan base rate, to be adjusted every six months.

*Loan availability period:* Drawdown shall be made within 24 months from the date of the loan agreement.

*Guarantee:* Each of Eco-Tech, Kewei and High Point shall execute a guarantee in favour of BOC guaranteeing the repayment obligations under the loan agreement. Eco-Tech and Kewei each executed a guarantee in favour of BOC on 27 August 2014. As at the Latest Practicable Date, High Point had not executed any guarantee in favour of BOC yet.

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*Security:* Zhanjiang Yuefeng shall execute a charge over the income receivable pursuant to the Zhanjiang Concession Agreement in favour of BOC as security for the repayment of the loan. The execution of the charge is subject to the prior written consent of the Zhanjiang DRB. As at the Latest Practicable Date, Zhanjiang Yuefeng had not obtained the requisite consent from the Zhanjiang DRB in respect of the execution of the charge and had not executed any charge in favour of BOC yet. We expect to obtain such written consent from the Zhanjiang DRB in early 2015.

As at the Latest Practicable Date, Zhanjiang Yuefeng had not yet drawn down any loan under the loan agreement and the Directors expected the Group to meet the terms and conditions under the loan facility.

The following table sets out a breakdown of the estimated capital investment in relation to phase one of the Zhanjiang Project:

	<i>RMB million</i>	<i>Equivalent amount in HKD million</i>
Construction expenses	100.9	127.1
Equipment expenses	214.4	270.2
Installation expenses	42.7	53.8
Other expenses	112.2	141.4
<b>Total:</b>	<b>470.2</b>	<b>592.5</b>

Our Directors currently estimate RMB120.2 million (equivalent to approximately HK\$151.5 million) or approximately 25% of the total capital investment in respect of phase one of the Zhanjiang Project will be funded by shareholder capital contribution and RMB350 million (equivalent to approximately HK\$441.0 million) or approximately 75% of the total capital investment will be funded by bank loans.

Our Directors expect that the estimated capital investment in relation to phase two of the Zhanjiang Project be approximately RMB130.4 million (equivalent to approximately HK\$164.3 million). We have reserved approximately [Redacted] from the [Redacted] of our [Redacted] for the future development of the phase two of the Zhanjiang Project. Please refer to the section headed “Future plans and [Redacted]” in this [Redacted] for further details.

### *Current status of the Zhanjiang Project*

As at the Latest Practicable Date, we have commenced preparatory construction work such as connecting the site to water, electricity and roads and levelling of the site (三通一平). Due to delays in the resettlement arrangements by the relevant government authority in clearing the land for our use, we have not obtained the land use right certificate before the anticipated date, and as a result we have not yet obtained the construction work planning permit (建設工程規劃許可證) and the construction work commencement permit (施工許可證) required to commence construction of the plant’s building. If we cannot obtain the land use right certificate by the end of 2014, our Directors foresee that we may

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not be able to complete the construction work of phase one by the milestone date of 18 June 2015 as stipulated under the Zhanjiang Concession Agreement. Therefore, we have duly obtained a written notice issued by the Zhanjiang DRB dated 30 July 2014 whereby the Zhanjiang DRB has agreed to defer the milestone date for commencing construction work to the date on which Zhanjiang Yuefeng receives the construction work commencement permit and to defer all subsequent milestone dates accordingly without penalty. Our Directors expect Zhanjiang Yuefeng to obtain the land use right certificate, the construction work planning permit and the construction work commencement permit in the fourth quarter of 2014. For further details of the risks in this regard, please refer to the section headed “Risk factors — Our BOT projects are subject to stringent contractual obligations and any failure to adhere to the concession terms may result in adverse effects on our business”.

### *Construction arrangements*

We have two main contractors for the construction of the Zhanjiang WTE Plant. The first main contractor is the EPC Contractor, which will be responsible for project surveys, design, construction and procurement, installation and commissioning of equipment, whilst the second main contractor is the supervising contractor (“**Supervising Contractor**”), which will be responsible for overseeing the management of the project and the quality of the construction work. These two contractors shall be engaged through public tender processes with the approval of the Guangdong Development and Reform Commission. The EPC Contractor may further engage its own subcontractors to undertake any part of the works. During the construction of the Zhanjiang WTE Plant, Zhanjiang Yuefeng will oversee the progress of the contractors and subcontractors, and will provide necessary assistance and guidance where necessary.

As at the Latest Practicable Date, Zhanjiang Yuefeng had entered into the EPC Contract for the engagement of the EPC Contractor, which is an Independent Third Party, and had also engaged another party to be the Supervising Contractor. Please refer to the paragraphs headed “EPC Contract” and “Supervising Contractor” below for further details of the EPC Contract and the Supervising Contractor.

### *Waste treatment arrangement*

As at the Latest Practicable Date, Zhanjiang Yuefeng had not entered into any waste supply agreements with any customers with respect to the Zhanjiang Project. Pursuant to the Zhanjiang Concession Agreement, upon issuance of the environmental protection testing acceptance for phase one of the Zhanjiang Project, the Zhanjiang DRB shall procure a daily average of not less than 800 tonnes of permitted MSW each year, notwithstanding the fact that phase one of the Zhanjiang WTE Plant will have a processing capacity of 1,000 tonnes per day. It is possible that Zhanjiang Yuefeng may not be able to secure sufficient MSW supply to fully utilise the capacity of the Zhanjiang WTE Plant, and that the operational results of Zhanjiang Yuefeng may be adversely affected. For further details of the risks that Zhanjiang Yuefeng may face if it fails to procure sufficient MSW, please refer to the section headed “Risk factors — Risks relating to our business and industry — Our WTE plants are highly dependent on the due performance of waste suppliers”.

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### *Power purchase arrangement*

As at the Latest Practicable Date, Zhanjiang Yuefeng had not entered into any power purchase agreements with any power grid companies with respect to the Zhanjiang Project. Pursuant to the Zhanjiang Concession Agreement, the Zhanjiang DRB is obliged to assist Zhanjiang Yuefeng in procuring a power grid company to enter into a power purchase agreement with Zhanjiang Yuefeng before trial operation of the Zhanjiang WTE Plant commences.

### *Investment payback period*

The estimated project investment payback period for the Zhanjiang Project (including both phase one and phase two) is approximately 11.3 years. In determining this estimated investment payback period, we have made the following key assumptions: (i) the waste treatment fees will remain at RMB81.8 per tonne; (ii) the on-grid tariffs will be kept at RMB0.65 per kWh (VAT inclusive) for the first 280 kWh generated by every tonne of MSW and RMB0.502 (VAT inclusive) per kWh for any additional power output; (iii) operation costs will be constant; (iv) there will be a subsidy of RMB0.01/kWh (VAT inclusive) for each 50km section of power transmission line between the plant and grid; and (v) the total capital investment for the phase one of the Zhanjiang Project will be approximately RMB470.2 million, which is expected to be financed as to approximately 25% by shareholders' capital contributions and as to the remaining balance of approximately 75% by long term bank loans. Our Directors believe that the estimated investment payback period is comparable to other similar WTE projects which are operated on a BOT basis. The longer payback period for our Zhanjiang Project when compared with that for the Technological Upgrade for our Eco-Tech WTE Plant was mainly because (i) the investment per unit waste processing capacity of Zhanjiang Project, which is a greenfield project, is relatively higher, for example, investment costs for preparatory construction work and construction of the weighing station can be saved for the Technological Upgrade; and (ii) the lower MSW treatment fee for our Zhanjiang Project of RMB81.8 per tonne as compared to RMB110 per tonne for our Eco-Tech WTE Plant.

### *EPC Contract*

#### (i) Scope of the EPC Contract

Pursuant to the EPC Contract, the EPC Contractor is responsible for the project surveys, design, construction and procurement, installation and commissioning of equipment in relation to the Zhanjiang WTE Plant.

While the EPC Contract covers both phase one and phase two of the Zhanjiang Project, Zhanjiang Yuefeng has not obtained any approval from the Zhanjiang DRB for phase two of the Zhanjiang Project as at the Latest Practicable Date. Our Directors considered that it is in the commercial interest for Zhanjiang Yuefeng to enter into the EPC Contract for both phase one and phase two of the Zhanjiang Project because: (i) various aspects of the development of the Zhanjiang

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## **BUSINESS**

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Project were designed and regarded as one project rather than two separate projects; (ii) Zhanjiang Yuefeng has no obligation to pay for phase two construction work unless it has been commenced, and such construction work will only commence after we have given instructions to the EPC Contractor to do so; and (iii) construction costs will likely increase in the future due to inflation.

(ii) Total contract sum

The total contract sum payable by Zhanjiang Yuefeng to the EPC Contractor under the EPC Contract is RMB566,820,000. Payment of the contract sum under the EPC Contract will be made according to the progress of the different types of work done, such as the design work, purchase of equipment, construction work and installation of equipment. As payment shall be made according to the progress of the work, Zhanjiang Yuefeng has no obligation to pay any sum to the EPC Contractor for phase two construction work unless and until we have obtained approval from Zhanjiang DRB for phase two and have given instructions to the EPC Contractor to commence such work.

Upon completion of the contract work, Zhanjiang Yuefeng will withhold payment of an amount representing 10% of the total construction fee as security for quality and maintenance work, and such amount shall be payable when no quality issue arises during the warranty period. Different durations of warranty periods ranging from one to five years will apply to different types of work under the EPC Contract.

*Supervising Contractor*

Shenzhen He Chuang Construction Engineering Consulting Company Limited (深圳市合創建設工程顧問有限公司) (“**Shenzhen He Chuang**”), which is an Independent Third Party, successfully won the public tender to be the Supervising Contractor for the Zhanjiang Project on 29 July 2014. The tender sum is priced at RMB3.6 million. Pursuant to the contract dated 15 August 2014 entered into between Shenzhen He Chuang and Zhanjiang Yuefeng, as supplemented by a supplemental contract dated 9 September 2014 (collectively, the “**Supervision Contract**”), Shenzhen He Chuang as the Supervising Contractor shall be responsible for overseeing the construction work for three sets of 500t/d moving grate incinerators and two sets of 15MW steam turbine generators of the Zhanjiang Project. The total contract sum under the Supervision Contract is RMB3.6 million, of which RMB2.4 million is for phase one while the remaining RMB1.2 million is for phase two of the Zhanjiang Project. The contract sum shall be payable in stages according to the progress of the work done.

### **OUR WTE PROCESS**

Our WTE plants generally adopt the following steps to process waste and generate power:

- (a) waste reception and feeding;
- (b) incineration;
- (c) heat exchange and power generation;
- (d) wastewater treatment; and

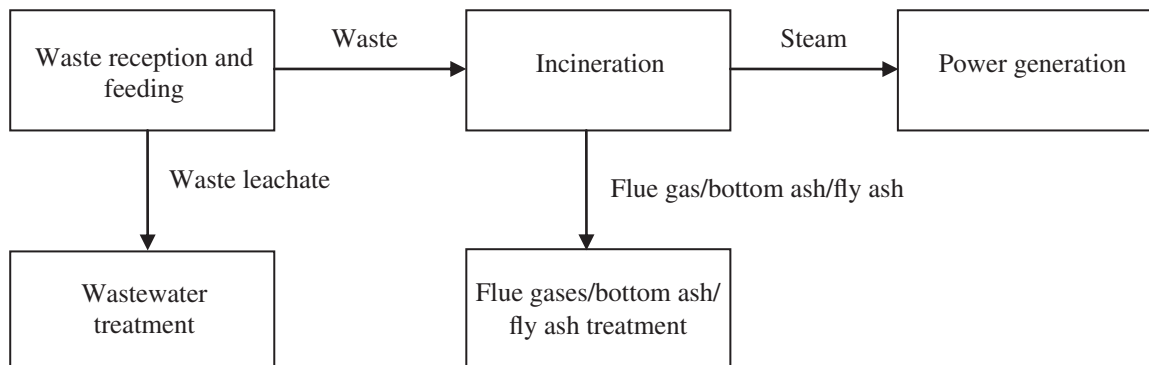
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(e) flue gases / bottom ash / fly ash treatment.

The following flow chart provides an overview of the major steps of our WTE process:



During the WTE process, the energy stored in MSW is converted to thermal energy through combustion. The high temperature steam generated from such thermal energy then drives the steam turbines and eventually generates power via electricity generators.

Our Kewei WTE Plant and China Scivest WTE Plant currently employ moving grate incinerators which were manufactured domestically and utilise technology designed and licensed by Germany based MARTIN GmbH. Our Eco-Tech WTE Plant employed the fluidised bed incineration technology prior to the Technological Upgrade, which used coal as an auxiliary fuel on top of MSW, the primary fuel source. After the Technological Upgrade, our Eco-Tech WTE Plant will employ the same incineration technology as our Kewei WTE Plant and China Scivest WTE Plant.

(a) *Waste reception and feeding*

MSW is brought in by waste collection vehicles and weighed at our WTE plants. Waste collection vehicles transporting waste to our WTE plants need to comply with our rules (e.g. sealed and installed with auto-dumping systems, not exceeding the maximum designated weight and not bringing in prohibited waste). The weight data of incoming waste collected from the weighing station is transmitted to and monitored by the government authorities (e.g. Dongguan Municipal Administration) and is used for the calculation of the waste treatment fees to be collected. The MSW is then transported by these waste collection vehicles to the discharge platform, where it is discharged into the storage pool for fermentation. Waste in the storage pool is then transferred by a crane into the feeding system for incineration.



Weighing Station



Discharge Platform



Storage Pool



Waste Crane



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Whilst certain categories of waste such as explosive waste and construction materials are prohibited from incineration, we mainly rely on our MSW suppliers, which are obliged to supply us with waste of the right quality under the respective waste treatment contracts, to screen for prohibited waste. There is no assurance that our MSW suppliers will supply us with waste of the right quality. For further details of the risks in this regard, please refer to the section headed “Risk factors — Risks relating to our business and industry — Our WTE plants are highly dependent on the due performance of our waste suppliers” in this [Redacted]. We monitor and assess the quality of the waste delivered to our WTE plants and check for prohibited waste. In the event that our staff discover any prohibited waste, they may demand the waste to be returned to the supplier. We did not experience any material return of waste during the Track Record Period and up to the Latest Practicable Date.

For fluidised bed incinerators that we used in our Eco-Tech WTE Plant prior to its Technological Upgrade, we employed pre-treatment procedures before feeding the waste into the incinerators. Our contractors would first remove any prohibited and large sized waste manually. Waste would then be broken into pieces to minimise the size for incineration. Metals are removed from the waste by magnets. After the Technological Upgrade of our Eco-Tech WTE Plant, such pre-treatment procedures will no longer be necessary. For further details of the difference between the fluidised bed incineration technology and moving grate technology, please refer to the section headed “Industry overview — Overview of WTE industry in China and Guangdong Province — Incineration technology and equipment overview” in this [Redacted].

### *(b) Incineration*

We used coal to assist in the incineration of MSW in the fluidised bed incinerator in our Eco-Tech WTE Plant prior to its Technological Upgrade. A coal transportation system was employed for the storage, transportation, breakdown and measurement of the coal, and had a transportation capacity of 70 tonnes per hour. During the incineration process, waste is suspended in a hot fluidised bed of ash and particulate materials and air is injected to provide the oxygen required for incineration. This mix of gas and solids promotes heat transfer and chemical reactions to facilitate the incineration of MSW.

We will no longer use coal for the incineration of MSW in our Eco-Tech WTE Plant after the completion of its Technological Upgrade. Moving grate incinerators in our Eco-Tech WTE Plant (after its Technological Upgrade), Kewei WTE Plant and China Scivest WTE Plant do not require any auxiliary fuel for general combustion. Auxiliary fuel such as diesel would only be required for incinerator start-up after an outage or an overhaul for maintenance. During the incineration process, waste passes through a downward inclined moving grate as it is being incinerated and is continuously turned during incineration to maximise its contact with air to achieve full combustion. This process makes moving grate technology suitable for the incineration of Chinese domestic waste, which generally has high moisture and low heat value. The advantages for incineration of waste with moving

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grate technology are, amongst others, high reliability, large capacity and its ability to incinerate waste without auxiliary fuel and pre-treatment of waste.



Incinerator

*(c) Heat exchange and power generation*

The heat recovery steam generator recovers the heat produced during the incineration process and generates high temperature steam. The high temperature steam drives the steam turbines which in turn drive the generators to produce power. Boilers, steam turbines and generators are all managed and monitored by the central control unit. The power output is then transmitted to the local power grid company (i.e. the Dongguan Power Supply Bureau for our WTE plants in Dongguan).



Steam Turbine Generators



Steam Turbine Generator

*(d) Wastewater treatment*

Comprehensive wastewater treatment systems are installed in our WTE plants to process leachate (generated in the process of fermentation of MSW in the storage pool) and other wastewater produced by the incinerator and general sewages. Wastewater are processed according to the national standard. The treated wastewater is either reused or discharged to local municipal sewage treatment plants for further treatment. Concentrate produced during the treatment process are transferred back to the storage pool or incinerator.



Wastewater Treatment

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## **BUSINESS**

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*(e) Flue gases/bottom ash/fly ash treatment*

Flue gases produced from waste incineration are processed by the flue gas treatment system to meet applicable environmental protection standards before being released through the smokestack. Gases and fly ash generated in the process of incineration will undergo a comprehensive flue gas treatment process, including de-nitrification, de-acidification, activated carbon absorption and ash removal by bag filtering process, in order to separate and remove ash, vapour and hazardous components in the flue gases.

Processed gases are then released through a smokestack. To ensure emission levels comply with national regulatory standards, electronic monitoring equipment is placed at the gas emission window of each incinerator. The real-time emission data of our WTE plants is streamed to the Dongguan Environmental Protection Bureau (東莞市環境保護局). We have dedicated personnel to monitor and manage the emission level to ensure that our emission levels comply with the relevant standards.



Deacidification Tower



Baghouse Filters



Smokestack

Fly ash is collected and transported by contractors for further processing. We pay these contractors to provide further processing by reference to the tonnage of fly ash collected.

Bottom ash produced in the incineration process is ejected from the base of the incinerator and then transported to Independent Third Parties for further treatment, such as for conversion into construction materials. Scrap metal in the cooled bottom ash is collected and sold to third party contractors.

### **Production and supporting facilities**

Our Eco-Tech WTE Plant and Kewei WTE Plant share certain production and supporting facilities (such as weighing scales and wastewater treatment systems) as the two plants are adjacent to each other. As a standalone WTE plant, our China Scivest WTE Plant has its own production and supporting facilities. For further details, please refer to the Technical Report in Appendix IV to this [Redacted].

### **SALES AND MARKETING**

Our business development team initiates marketing activities in key regions that we believe will have the opportunities to develop greenfield projects. We expand our business network through joining various industry organisations, environmental exhibitions and industrial conferences, thereby increasing our presence and recognition in the WTE industry.

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As at the Latest Practicable Date, we are a member of the following industry organisations:

- China Renewable Energy Industry Association (中國可再生能源協會)
- Guangdong Province Urban Waste Disposal Industry Association (廣東省城市垃圾處理行業協會)
- Guangdong Province Energy Conservation Association (廣東省節能協會)
- Guangdong Province Environmental Monitoring Association (廣東省環保監測協會)
- Dongguan City Environment and Sanitation Industry Association (東莞市環境衛生行業協會)
- Guangdong Province Environmental Protection Promotion and Education Centre (廣東省環境保護宣傳教育中心)

We keep ourselves abreast of the development of the WTE market and reach out to the relevant governmental bodies which are supportive in promoting the WTE industry in their own region. We have arranged site visits to our WTE plants to demonstrate our industrial knowledge, technical expertise and management excellence to our potential business partners. We volunteer to provide consultation services to the relevant governmental bodies which are interested in but have limited experience of WTE plant development in their governing regions and to educate them on the WTE industry. Our Directors strongly believe these marketing efforts are effective means to promote our reputation amongst local governments which have demands for our waste treatment services and to allow us to source new projects.

## **CUSTOMERS**

### **Power sales**

Our revenue is derived from (i) the waste treatment fees that we receive from our MSW suppliers, which are primarily local governments, and (ii) the sale of power generated by our WTE plants. During the Track Record Period, the Dongguan Power Supply Bureau, which has been a customer for our power for approximately eight years and the largest contributor to our Group's revenue, contributed approximately HK\$107.0 million, HK\$265.4 million, HK\$261.7 million and HK\$192.8 million of revenue for the three years ended 31 December 2013 and the six months ended 30 June 2014, respectively, accounting for approximately 69.3%, 68.6%, 67.1% and 61.5% of our total revenue for such periods, respectively. Due to the particular regulatory requirements and policies applicable to the WTE industry, we rely heavily on the Dongguan Power Supply Bureau as the single power grid company customer. If there is any change in these regulatory requirements and policies, it may not be possible for us to find alternative power grid companies to purchase the power generated by us. For further details of the risks related to such reliance, please refer to the section headed “Risk Factors — Risk relating to our business and industry — We are subject to heavy reliance on a customer for power sales”.

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### **MSW**

Although our principal source of raw materials for the operation of our WTE plants is MSW, our MSW suppliers which are principally local government entities pay us waste treatment fees for processing the MSW and we treat them as our customers. Pursuant to the terms of our waste treatment contracts, MSW suppliers are responsible for the collection and delivery of MSW to our WTE plants and are generally not allowed to supply our WTE plants with waste that is prohibited from incineration by environmental authorities, which includes, amongst others, explosive waste, medical waste, industrial waste and construction waste. If we discover any of the above categories of waste, we may charge extra fees, return the same to the supplier or even terminate the waste treatment contracts. In addition, MSW suppliers are not permitted under the relevant contracts to cease or suspend supplying waste to our WTE plants without reason, and are obliged to compensate us for any losses which may be incurred due to such cessation or suspension at pre-agreed contractual rates. Similarly, we are not allowed to reject waste supplied by the MSW suppliers without reason and may be held liable for any such rejection. As at the Latest Practicable Date, we had 19 waste treatment contracts with MSW suppliers which provided a total contracted daily MSW supply volume of 3,248 tonnes.

### **Top five customers during the Track Record Period**

The total revenue from our top five customers for the three years ended 31 December 2013 and the six months ended 30 June 2014 were approximately HK\$138.1 million, HK\$331.6 million, HK\$326.4 million and HK\$234.1 million, respectively, accounting for approximately 89.4%, 85.7%, 83.7% and 74.7% of our total revenue for such periods, respectively. Our top five customers during the Track Record Period were our MSW suppliers (which are mainly government authorities in town and county levels) and the Dongguan Power Supply Bureau and their business relationship with us range from approximately one to nine years.

All of our top five customers during the Track Record Period were Independent Third Parties. None of our Directors, their close associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital had any interest in any of our top five suppliers during the Track Record Period.

### **SUPPLIERS, RAW MATERIALS AND INVENTORIES**

We have been sourcing various materials and services for the operation of our WTE plants in the PRC. As we are undertaking the Technological Upgrade of our Eco-Tech WTE Plant and are in the process of constructing our Zhanjiang WTE Plant, we have engaged a number of contractors to undertake the construction work.

### **Operation of our WTE plants**

#### **MSW**

The principal source of raw materials for the operation of our WTE plants is MSW, which we receive from our various MSW suppliers pursuant to waste treatment contracts. We receive waste treatment fees for processing the MSW and we treat our MSW suppliers as our customers. For further details, please refer to the subsection headed “Customers — MSW” in this section above.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortfall in the supply of waste and there has not been any material return of waste to our MSW suppliers.

### ***Fuels and consumables***

During the Track Record Period, coal procurement represented the largest purchase of our Group. Since the commencement of the Technological Upgrade of our Eco-Tech WTE Plant, we no longer need to procure coal for our production process. The coal supply contracts before the Technological Upgrade were terminated by Eco-Tech before the commencement of the Technological Upgrade. During the Track Record Period, cost of coal accounted for 15.4%, 35.1%, 30.0% and 13.1% of the total cost of sales, respectively.

We also procure other consumables such as chemicals and diesel oil which are required for our day to day operations. Our WTE plants use a wide variety of chemicals such as urea, activated carbon, calcium oxide and calcium hydroxide in the wastewater treatment and flue gas treatment processes to reduce or break down the hazardous substances innate to the waste created during the process of waste incineration. We also use a small amount of diesel oil for ignition purposes. Consumables account for a relatively small portion of our direct costs and operating expenses.

### ***Service providers***

We engage Independent Third Party service providers to perform various services such as bottom ash and fly ash treatments, security services, small scale construction and maintenance work which are ancillary to our day to day operations. We select these service providers based on criteria such as qualifications, reputation, service quality and price competitiveness.

During the Track Record Period and up to the Latest Practicable Date, we have engaged six service providers to collect fly ash and/or bottom ash for our WTE Plants. One of the service providers, which collected both fly ash and bottom ash for our Eco-Tech WTE Plant, was a company controlled by Mr. KM Lai, our executive Director and deputy Chairman. All the other service providers are Independent Third Parties. We did not pay any fees to or receive any incomes from the service provider which is controlled by Mr. KM Lai as it collected both fly ash and bottom ash, and bottom ash can be used as raw materials for the production of certain building materials and has commercial value. We have ceased to engage the service provider which is controlled by Mr. KM Lai to collect fly ash and bottom ash for our Eco-Tech WTE Plant after the commencement of Technological Upgrade of Eco-Tech in April 2014. As at the Latest Practicable Date, we have engaged two service providers to collect fly ashes and two service providers to collect bottom ash from us. For further details, please refer to the section headed “Financial information — Description of selected items in the consolidated income statement — Cost of sales”.

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### **Inventories**

During the Track Record Period, our inventories primarily consist of raw materials, principally coal (as an auxiliary fuel source for our Eco-Tech WTE Plant), and other fuels and consumables such as chemicals and diesel oil used in our operations of WTE projects. The balances of our inventories accounted for a relatively small portion of our current assets. For further details, please refer to the section headed “Financial information — Discussion of certain balance sheet items — Inventories” in this [Redacted].

### **Top five suppliers during the Track Record Period**

The total purchase from our top five suppliers for the three years ended 31 December 2013 and the six months ended 30 June 2014 were approximately HK\$12.7 million, HK\$72.6 million, HK\$68.2 million and HK\$39.8 million, respectively, accounting for approximately 59.9%, 67.8%, 61.6% and 65.1% of our total purchases for such periods, respectively. Such suppliers provide coal, water, repair services and pollutant treatment services. Our business relationships with the five largest suppliers range from approximately one to nine years. No long term contracts were entered into between our Group and our top five suppliers during the Track Record Period. Our Directors confirmed that our Group did not have any material disputes with any of our suppliers or service providers during the Track Record Period. The total purchase from our top supplier for three years ended 31 December 2013 and the six months ended 30 June 2014 were approximately HK\$5.1 million, HK\$34.7 million, HK\$23.7 million and HK\$20.1 million, respectively, accounting for approximately 24.4%, 32.4%, 21.5% and 32.9% of our total purchases for such periods, respectively. Our top five suppliers during the Track Record Period supplied coal and pollutant treatment service to us and their business relationship with us range from approximately one to 10 years.

All of the above top five suppliers are Independent Third Parties. None of our Directors, their close associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital had any interest in any of our top five customers during the Track Record Period.

### **Project construction**

The construction work of the Technological Upgrade of our Eco-Tech WTE Plant was undertaken by Independent Third Party contractors which were engaged following a tender process. We take into account a number of factors when selecting our contractors which include, but are not limited to: (i) qualifications; (ii) past experience and performance; (iii) price competitiveness and quality of services offered; and (iv) financial and managerial ability.

We procured equipment, such as incinerators, steam turbines, flue gas systems and various construction materials from suppliers in the PRC for the Technological Upgrade of our Eco-Tech WTE Plant and the construction of our Zhanjiang WTE Plant. For the construction of our Zhanjiang WTE Plant, we rely on contractors to supply various kinds of equipment (such as incinerators and boilers) and carry out construction work for our Zhanjiang WTE Plant. We select suppliers and contractors which are Independent Third Parties based on criteria such as reputation, product quality and price competitiveness.

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### **REPAIRS AND MAINTENANCE**

To uphold the highest standards of our operations, we have a designated team responsible for the day-to-day repairs and maintenance of our WTE plants and equipment. We carry out large scale maintenance for our incinerators based on our assessment of the incinerators' conditions. During such large scale maintenance periods, which may last approximately 10 to 30 days, we suspend the operation of one incinerator while the other incinerators would take up the portion of waste which would otherwise be processed by the incinerator under maintenance. The maintenance work is undertaken by our internal maintenance team or with external contractors, depending on the complexity of the work and the experience of our internal maintenance team.

In addition to the above, we have adopted the following measures to maintain the high standard of our operations:

- engaging experienced personnel to oversee the operation of our WTE plants;
- employing computerised systems to monitor the operation of our production facilities;
- designing and adopting systematic programmes to prepare for emergencies that may arise (e.g. large scale pollution); and
- holding regular internal meetings to review the standard of the operation of our WTE plants.

### **RESEARCH AND DEVELOPMENT**

We do not have any policy on research and development and did not incur substantial expenses specifically for research and development during the Track Record Period.

### **QUALITY CONTROL**

We have established a quality management system, led by our chief engineers, Mr. Song Lanqun and Mr. Chen Bo, who each have more than 10 years' experience in the WTE industry. The quality management team comprises engineers and technicians who are responsible for conducting regular inspections at our operating WTE plants. Mr. Chen is responsible for the quality control of the Technological Upgrade of our Eco-Tech WTE Plant and Mr. Song is responsible for the quality control of the construction of the Zhanjiang WTE Plant. We also have designated staff in different departments to ensure compliance with the standards of the quality management system within their respective departments.

We have implemented various quality control standards and procedures for our equipment, work force and emissions at our operating WTE plants, such as conducting sampling checks on emission levels, physically inspecting equipment parts and issuing safety measures to our employees. Our quality management system was accredited by various ISO certification. Eco-Tech obtained ISO 9001 certification in 2009 and passed annual surveillance in 2012 and 2013, while Kewei was accredited with ISO 9001, ISO 14001 and OHSAS 18001 certification in 2013.



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In addition, we have implemented quality control procedures for our third-party contractors and suppliers, such as:

- major contracts with third parties (e.g. EPC, construction and equipment supply contracts) are executed after tender processes;
- contractors and suppliers are contractually required to adhere to our quality control measures and standards; and
- we have an on-site management team to monitor the materials supplied to us and the work carried out by our contractors and their subcontractors.

## **ENVIRONMENTAL AND SOCIAL MATTERS**

Our WTE business is subject to various laws and regulations in the PRC which include, but are not limited to, the Environmental Protection Law of the People’s Republic of China (中華人民共和國環境保護法), the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例), the Law of the People’s Republic of China on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法), the Law on Prevention of Water Pollution of the PRC (中華人民共和國水污染防治法), the Law on the Protection and Control of Solid Waste Pollution of the PRC (中華人民共和國固體廢物污染環境防治法) and the Administrative Regulation on the Levy and Use Discharge Fees (排污費繳收使用管理條例). For more details, please refer to the section headed “Regulatory overview — Major regulatory requirements relating to environmental protection”. To comply with these laws and regulations, we have implemented comprehensive management systems and internal procedures.

We construct and operate our WTE plants in accordance with the applicable environmental laws and regulations to mitigate adverse effects on the environments. We have established an environmental protection responsibility system, which is headed by the Vice General Manager of each WTE Plant. To reduce emissions, we have installed flue gases and wastewater treatment systems in our WTE plants to remove harmful substances that are generated during the operation of our WTE plants. These measures consistently keep our emission levels and odours below the national safety limits. In addition, bottom ash and fly ash generated from incineration of waste are disposed in accordance with the relevant environmental laws and regulations. As a result, our WTE plants have obtained the required approvals from the local government and we have satisfied the emission requirements set by the relevant regulations during the Track Record Period and up to the Latest Practicable Date.

The following summarises the emissions control measures we have implemented for our currently operating WTE plants and to be implemented for our Eco-Tech WTE Plant (after completion of its Technological Upgrade) and our Zhanjiang WTE Plant:

### **Flue gas control system**

Our WTE Plants utilise the selective non-catalytic reduction (“**SNCR**”) system to treat the flue gas produced from the incineration of MSW. The SNCR process can convert harmful nitrogen oxides to harmless atmospheric gases. We also employ techniques such as semi dry desulfurisation, rotary atomisers and granular activated carbon bag filters to remove harmful pollutants such as dioxins, smog, dust, sulphur dioxide, hydrochloric acid, hydrofluoric acid and heavy metals.

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### **Wastewater treatment measures**

Leachate generated from MSW is piped to a leachate treatment station and then treated through an up-flow anaerobic sludge bed, a membrane bio-reactor and nano-filtration. Wastewater may be further treated by reverse osmosis and hydrolytic acidification. The treated wastewater may be reused as circulatory cooling water inside the plant or discharged off site.

### **Solid waste treatment measures**

The bottom ash produced after MSW incineration is collected by a contractor for further treatment as normal industrial solid waste. Sludge generated in the wastewater treatment process is dewatered by a sludge dewatering facility. Concentrated wastewater and the sludge cake may be further incinerated onsite. Scrap metal mixed in bottom ash are collected for recycling.

### **Fly ash treatment measures**

Fly ash produced during incineration is classified as hazardous waste. We engaged contractors to collect, transport and treat the fly ash. The treatment method involves the stabilisation/solidification of the fly ash and then disposal in a local landfill site for hazardous waste. The collection and transportation of fly ash should be done using sealed container and customised vehicle, and the procedure and data should be properly documented as required by the Environmental Protection Bureau. The treatment method is strictly managed by the local environment authority. For details of the arrangement, please refer to the subsection headed “Suppliers — Operation of our WTE plants — Service providers.”

### **Noise control measures**

Each of our WTE plants has a list of ambient noise control measures, including:

- designing and constructing the main facilities to be as far away from office areas as possible in order to minimise noise influence;
- installing sound absorption devices in the staff centralised control room; and
- installing low noise equipment and a muffler for boiler exhaust steam and first and secondary air inlets.

For further details of the emissions control measures utilised by each of our WTE plants, please refer to the Technical Report in Appendix IV to this [Redacted].

In addition, pursuant to the Notice regarding the Implementation of the Thermal Power Plant Atmospheric Pollutant Emission Standard (國家環境保護總局關於貫徹實施新修訂《火電廠大氣污染物排放標準》的通知) issued on 21 May 2004, all thermal WTE plants must install the CEMS system, which is connected to the relevant environmental protection authorities, for the purpose of keeping tracks of the pollutants emission of thermal WTE plants. Failure to comply with such requirement may

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result in a local government-imposed fine or suspension of operation. Our WTE plants have the CEMS system in place, which tracks in real time the various pollutants that may be created in the process of incineration. The data collected from our WTE plants are displayed to the public at the front gate of the premises.

On 16 May 2014, the Ministry of Environmental Protection (環境保護部) and General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) of the People’s Republic of China jointly issued the new “Standard for Pollution Control on the Municipal Solid Waste Incineration” (生活垃圾焚燒污染控制標準(GB18485-2014)) which requires the new WTE plants (constructed on or after 1 July 2014) and existing WTE plants to comply with the new standard on 1 July 2014 and 1 January 2016, respectively. All of our WTE plants (our operating WTE plants in Dongguan, our Zhanjiang WTE Plant currently under development and our Eco-Tech WTE Plant after its Technological Upgrade) have been or will be able to meet this new standard when it becomes effective. In addition, Kewei was awarded the ISO 14001 Environment Management System Certificate and ISO 9001 Quality Management System Certificate in 2013.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any non-compliance with the applicable environmental laws or regulations. During the three years ended 31 December 2013 and the six months ended 30 June 2014, our environmental protection costs incurred amounted to approximately HK\$4.4 million, HK\$22.8 million, HK\$33.0 million and HK\$29.5 million, respectively. We expect the environmental compliance costs for the six months ending 31 December 2014 and the year ending 31 December 2015 will be approximately HK\$24.9 million and HK\$63.9 million, respectively.

As a socially responsible enterprise, we are also committed to promoting environmental awareness. For example, we organise educational tours for students, government officials and the public to visit our WTE plants to learn about our operations and environmentally responsible practices. During the Track Record Period, our staff have participated in various lectures to enhance their knowledge relating to environmentally responsible practices.

## **HEALTH AND WORK SAFETY**

Pursuant to national and local health and safety laws and regulations in the PRC, we are required to provide a safe working environment to our employees. To this end, we have provided our employees with adequate protective clothing, masks and gear, work safety training, and have designated specific safety management personnel. We have issued and implemented various guidelines for managing possible accidents and disasters which may occur in our WTE plants, including but not limited to fire hazards, personal injuries, earthquakes and power outages. The aim of these guidelines is to minimise the occurrence of accidents and improve the efficiency of our responsive actions when accidents and disasters do occur.

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We have implemented various measures to ensure the work safety of our employees, such as the automatic shutdown of machinery when they reach a certain pressure point, having a system in place to record accidents, and conducting regular inspection and maintenance checks on our facilities and equipment to ensure that they comply with the applicable national or industrial standards. We have placed various signs in our WTE plants to give our employees sufficient warnings and information about the hazards and dangers that exist in our work environment. We also issue guidance materials to our employees from time to time regarding work safety practices.

We believe our health and safety control measures are adequate and comply with applicable national and local health and safety laws and regulations in the PRC. During the Track Record Period and up to the Latest Practicable Date:

- (i) there were no material accidents in the course of our operations;
- (ii) Save as disclosed in the subsection headed “Legal compliance and proceedings — production safety supervision and management procedures” in this section below, we had complied with the applicable health and safety laws and regulations in all material respects; and
- (iii) the relevant authorities had not imposed any sanctions or penalty on us for any non-compliance of health and safety laws or regulations in the PRC.

### **AWARDS AND RECOGNITIONS**

Our commitment to excellence is evidenced by the numerous awards and recognitions that we have received since our establishment:

<b>Year</b>	<b>Award/recognition</b>	<b>Issuing institution</b>	<b>Receiver</b>
2013	Excellent MSW Treatment Project in Guangdong Province (廣東省城市生活垃圾處理優秀項目)	Guangdong Province Environment and Sanitation Association (廣東省環境衛生協會)	Kewei
2013	ISO 14001 Environmental Management System Certificate (valid until 31 October 2016) (環境管理體系認證ISO 14001)	Universal Certification Service Co. Ltd. (環通認證中心有限公司)	Kewei
2013	ISO 9001 Quality Management System Certificate (valid until 31 October 2016) (質量管理體系認證ISO 9001)	Universal Certification Service Co. Ltd. (環通認證中心有限公司)	Kewei

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<b>Year</b>	<b>Award/recognition</b>	<b>Issuing institution</b>	<b>Receiver</b>
2013	OHSAS 18001 Safety Management System Certificate (valid until 31 October 2016) (職業健康安全管理體系認證 OHSAS 18001)	Universal Certification Service Co. Ltd. (環通認證中心有限公司)	Kewei
2012	Grade AA Innocuous Waste Incineration Plant (AA級無害化焚燒廠)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	Kewei
2011	ISO 9001 Certification (valid until 22 December 2014) (質量管理體系認證ISO 9001)	Universal Certification Service Co. Ltd. (環通認證中心有限公司)	Eco-Tech
2011	Advanced Unit Award in Energy Saving for 2011 (節能先進單位)	Dongguan Municipal People’s Government (東莞市人民政府)	Eco-Tech
2010	Commendation of Key Construction (重點建設項目獎狀)	Dongguan Municipal People’s Government (東莞市人民政府)	Kewei
2010	Advanced Unit Award in Energy Saving for 2010 (節能先進單位)	Guangdong Energy Saving and Emissions Reducing Office (廣東省節能減排工作領導小組辦公室)	Eco-Tech

**MARKET AND COMPETITION**

We operate in the PRC WTE industry and our primary competitors are other WTE plant operators in the PRC. The WTE market in the PRC is relatively competitive and concentrated. According to the Euromonitor Report, in terms of daily processing capacity, the top 15 players’ daily MSW processing capacity reached over 98,400 tonnes by the end of 2013, representing approximately 66.5% of the PRC’s total daily MSW processing capacity.

Our Directors believe that the key to success in the WTE industry lies in the ability to expand processing capacity, and to secure and treat a large quantity of MSW. We face competition from other industry players. As of the end of 2013, there were 20 WTE plants in Guangdong Province, with a total daily MSW processing volume of approximately 23,000 tonnes. The top 10 WTE market players in Guangdong Province accounted for approximately 19,590 tonnes, or approximately 85.2%, of the total daily MSW processing capacity in the province in 2013. We were the second largest WTE provider in Guangdong Province in 2013, with a total daily MSW processing capacity of 3,000 tonnes and a market share of approximately 13.0%.

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There are fierce competition in the development of greenfield projects and the acquisition of existing WTE plants. Competition may further intensify if the PRC government implements preferential policies to encourage new entrants. Whilst some of our competitors may have stronger financial strength, better technologies, greater brand recognition, larger economies of scale, longer track records or even more established relationships within certain markets we operate in or intend to expand into, we believe that we are well-positioned to compete successfully due to (i) our experience and capability for developing and operating WTE projects based on our proven track record; and (ii) our ability to impose stringent cost control in project construction and operation. For further discussion on the competitive landscape we face for our industry, please refer to the section headed “Industry overview” in this [Redacted].

### **TAXATION**

Due to favourable policies for the WTE industry in the PRC, we enjoy and have enjoyed certain preferential tax treatments relating to (i) enterprise income tax, (ii) business tax and (iii) VAT. For further details of these preferential tax treatments, please refer to the section headed “Regulatory overview — Tax preferences” in this [Redacted].

### **INTELLECTUAL PROPERTY**

As at the Latest Practicable Date, our Group owned the domain name [www.canvestenvironment.com](http://www.canvestenvironment.com) and had licenses to use the trademarks “” and “” in Hong Kong as well as “”, “” and some other trademarks in the PRC. For further details, please refer to the section headed “B. Further information about the business — 2. Intellectual property rights” in Appendix VI to this [Redacted].

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we have not been involved in any material proceedings in respect of, and we are not aware of any claims of infringement of any intellectual property rights that may be threatened or pending, in which we may either be involved as a claimant or respondent.

### **INSURANCE**

We currently maintain insurance policies covering public liabilities, properties, accidental injuries and social security. Based on the risks that we may be subject to, we believe our insurance coverage is sufficient for our operations and is in line with the industry norm in the WTE industry in the PRC.

During the Track Record Period and up to the Latest Practicable Date, no material workers’ compensation claims, third party liability claims or accident compensation claims had been filed against us. However, we cannot assure you that such claims will not be brought against us in the future. Please refer to the section headed “Risk factors — Risks relating to our business and industry — Our assets are subject to hazards and our operation of WTE Plants may be subject to various disruptions and risks” in this [Redacted].

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### **EMPLOYEES**

As at 30 June 2014, we had 307 full-time employees based in the PRC and 10 full-time employees based in Hong Kong respectively.

<b>Function</b>	<b>Number of Employees</b>
Management	7
Financial matters	17
Technicians (including maintenance personnel)	76
Business Development	7
Procurement and logistics	8
Production	148
Others	54
<b>Total</b>	<b>317</b>

Compensation for our employees typically comprises base salary, performance-based salary and bonus. Our employees may also be granted other allowances based on their positions. We regularly review compensation and benefit policies to ensure that our practices are in line with market norms and in compliance with the relevant labour regulations. For each operating unit, different and specific performance evaluation criteria are used. Employees' incentives and bonuses are calculated based on the evaluation results of their respective units as well as on individual performance.

Our human resources department is responsible for the recruitment of new employees. When we have job vacancies, we typically advertise online and we also hire through referrals.

We provide comprehensive training for our employees to improve their skills and develop their careers. We provide orientation training for new employees as well as regular training for our existing employees. For example, all new employees in the production team will be supervised by our senior employees until their supervisors are satisfied with their performance and progress. In addition, all employees in the production team are required to attend regular training programmes in relation to internal operations and safety regulations and undertake monthly assessments.

We maintain good working relationships with our employees. We believe that our management policies, work environment, staff development opportunities and benefits have contributed to good employee relations and high retention rate of our employees. As at the Latest Practicable Date, our Group did not have labour union and we have not experienced any strikes or any labour disputes with our employees which have had a material effect on our business.

To protect our business interests we have entered into confidentiality agreements with members of our senior management. Pursuant to these confidentiality agreements, members of our senior management are prohibited from disclosing our trade secrets to third parties as well as from competing with our business by providing consultancy services to or soliciting our employees to work for our competitors.

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During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any penalties in relation to any violation of applicable PRC labour laws and regulations.

**PROPERTIES**

**Properties owned or occupied by us**

Details of the main properties we owned or occupied as at the Latest Practicable Date, which are all located in Guangdong Province or Hong Kong, are set out below:

<b>Group Company</b>	<b>Description/address</b>	<b>Total site area (square metres)</b>	<b>Status/restriction on use/encumbrance</b>
Eco-Tech and Kewei	Our Eco-Tech WTE Plant consisting of six buildings  Our Kewei WTE Plant consisting of six buildings  Address: Xihuan Road, Hengli Town, Dongguan City of Guangdong Province	116,026.6 (total site area of our Eco-Tech WTE Plant and our Kewei WTE Plant)	Eco-Tech and Kewei are entitled to use the lands in accordance with the land use right certificates, notwithstanding certain historical non-compliance. For further details, please refer to the subsection headed “Legal compliance and proceedings — Land use rights and buildings ownership certificates and other related certificates” in this section below.
China Scivest	Our China Scivest WTE Plant consisting of seven buildings  Address: Shuilian Town, Nancheng District Dongguan City, Guangdong	166,346.3	The land use right is owned by a subsidiary of Dongguan Municipal Administration and China Scivest is entitled to use the land pursuant to China Scivest Concession Agreement. The China Scivest WTE Plant has not yet obtained the construction work commencement permit (建築工程施工許可證), has not carried out the construction completion inspection and has not obtained the work completion inspection acceptance registration certificate (竣工驗收備案證書). As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the maximum penalty for the above is a maximum fine of 2% of the construction costs, 4% of the construction costs and RMB500,000, respectively. For further details, please refer to the subsection headed “Plan to resolve certain defects in relation to certain construction related licenses and permits of China Scivest WTE Plant” in this section below.



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Group Company	Description/address	Total site area (square metres)	Status/restriction on use/encumbrance
Zhanjiang Yuefeng	Our Zhanjiang WTE Plant <i>(under development)</i>  Address: North side of Zhanjiang MSW Landfill Zone 1, Yingling, Feng Village, Mazhang District, Zhanjiang	52,666.7	As at the Latest Practicable Date, Zhanjiang Yuefeng had yet to obtain the land use right certificate of such land. We expect the land use right certificate to be obtained in the fourth quarter of 2014. Subject to obtaining such certificate, Zhanjiang Yuefeng is entitled to use the property for the construction and operation of our Zhanjiang WTE Plant pursuant to the Zhanjiang Concession Agreement.
Canvest Group Investments	Our principal place of business in Hong Kong  Address: Units 1701B-1702A on Level 17, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong	302.6 <i>(Note: Gross floor area)</i>	Canvest Group Investments is entitled to use the property in accordance with the tenancy agreement.

**Plan to resolve certain defects in relation to certain construction related licenses and permits of the China Scivest WTE Plant**

*Defects with respect to the China Scivest WTE Plant*

Under the China Scivest Concession Agreement entered into between China Scivest and the Dongguan Municipal Administration (東莞市城市綜合管理局) on 10 December 2004, China Scivest was granted the right to design, build and operate the China Scivest WTE Plant on a parcel of land owned by a subsidiary of Dongguan Municipal Administration for a period up to 30 November 2028. The China Scivest WTE Plant commenced trial operation in September 2006 and re-commenced its trial operation upon completion of its Technological Upgrade in July 2013. The other party of the China Scivest Concession Agreement, the Dongguan Municipal Administration, shall assist China Scivest and facilitate the obtaining of the construction related licenses and permits for the China Scivest WTE Plant. As at the Latest Practicable Date, the China Scivest WTE Plant has not yet obtained the construction work commencement permit (建築工程施工許可證), has not carried out the construction completion inspection and has not yet obtained the construction completion inspection acceptance registration certificate (竣工驗收備案証書). The subsidiary of Dongguan Municipal Administration has not yet obtained the building ownership certificate for the China Scivest WTE Plant as at the Latest Practicable Date. The reason for China Scivest WTE Plant being unable to obtain the relevant construction permits is that there was a discrepancy in the site area of the China Scivest WTE Plant as shown in the previous construction land use planning permit (建設用地規劃許可証) issued in November 2004 (being 175,519 sq. m.) and that as shown in the land use right certificate issued in April 2009 (being 166,346.3 sq.m.). Such discrepancy was due to the fact that there had been changes to the land use planning and urban planning from time to time. As a result of such discrepancy, China Scivest WTE Plant was unable to obtain the relevant construction licences and permits. The discrepancy had been subsequently rectified after the issue of a new construction land use planning permit in January 2014.

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As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the maximum penalty for failure to obtain the construction work commencement permit, carry out the construction completion inspection and obtain the construction completion inspection acceptance registration certificate is a maximum fine of 2% of the construction costs, 4% of the construction costs and RMB500,000, respectively (i.e. RMB12.7 million in total). In addition, although the PRC laws and regulations do not expressly provide that the relevant government authorities shall order cease of use of any construction that has not passed the construction completion inspection, our PRC Legal Advisers are of the view that there is a risk that the relevant government authorities may order the cease of use of the China Scivest WTE Plant as it is provided under the law that a construction shall not be put to use before it has passed the construction completion inspection.

*Our intention with respect to the China Scivest WTE Plant*

We are now cooperating with the Dongguan Municipal Administration to retrospectively obtain the construction related licenses and permits for the China Scivest WTE Plant and an application has been made to the Dongguan Municipal People’s Government (東莞市人民政府) for a special approval on 13 August 2014.

Furthermore, the following steps had been taken with respect to the defects in relation to the construction related licenses and permits described above.

- (1) The Dongguan Municipal Management and Law Enforcement Bureau (東莞市城市管理綜合執法局) issued a certificate on 25 February 2014, confirming that, although the China Scivest WTE Plant was unable to obtain the relevant construction permits, the China Scivest WTE Plant (i) has obtained the construction land use planning permit (建設用地規劃許可証) and the construction work planning permit (建設工程規劃許可証) and (ii) was not illegally constructed, therefore the China Scivest WTE Plant is entitled to continue to use the relevant land and buildings in accordance with the China Scivest Concession Agreement.
- (2) The Dongguan Municipal Administration (東莞市城市綜合管理局), a government department under the Dongguan People’s Government responsible for municipal management, issued a certificate on 26 February 2014, confirming that (i) a subsidiary of the Dongguan Municipal Administration legally owns the land use rights of the China Scivest WTE Plant under the China Scivest Concession Agreement and (ii) the China Scivest WTE Plant can continue to use the relevant land and buildings in accordance with the China Scivest Concession Agreement. The Dongguan Municipal Administration further issued a certificate on 22 August 2014, confirming that it shall ensure China Scivest can lawfully use the relevant land and buildings in respect of the China Scivest WTE Plant without penalty arising from the defects in relation to the construction related licenses and permits.
- (3) During a physical interview with a senior officer of the Dongguan Municipal People’s Government on 14 August 2014, the Dongguan Municipal People’s Government has confirmed that (i) it is not aware of any material legal issues in relation to granting the approval to the application for the construction related licences and permits; and (ii) it

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would take three to six months for the Dongguan Municipal People’s Government to undergo and complete its internal procedures for the approval, after which the application could be passed on to the Dongguan Housing and Urban-Rural Development Bureau for granting of the construction related licenses and permits (or their equivalent).

- (4) The Dongguan Housing and Urban-Rural Development Bureau (東莞市住房和城鄉建設局) has confirmed through an interview with our PRC Legal Advisers on 2 July 2014 that the China Scivest WTE Plant is entitled to continue to use the relevant land and buildings in the concession period according to the China Scivest Concession Agreement.

Based on our experience on similar application, we estimate the time period for obtaining the construction related licenses and permits from the Dongguan Housing and Urban-Rural Development Bureau to be within six months to twelve months from the date of application. As such, our Directors expect that the construction related licenses and permits (or their equivalent) will be obtained by late 2015. We shall disclose the status of rectifying the deficits in relation to certain construction related license and permits of the China Scivest WTE Plant in our Company’s interim and annual reports until China Scivest has obtained all construction related license and permits (or their equivalent).

### *Continual use of the relevant buildings and risks of enforcement*

Based on the above mentioned interview with Dongguan Municipal People’s Government and other confirmations and certificates from the competent government authorities, our PRC Legal Advisers has advised that (i) our China Scivest WTE Plant is entitled to continue to use the relevant land and buildings while we are in the process of obtaining the construction related licenses and permits; and (ii) the risk that our Group would be penalised by any government authorities with respect to the defects in relation to construction related licenses and permits is low. On such basis, we have not made any provision regarding this matter up to the Latest Practicable Date.

### *Indemnities*

Meanwhile, we can be further assured that if the China Scivest WTE Plant is subject to any fine or penalty, we have the right to seek remedy against the previous owner of China Scivest, Mr. KL Lee, for any breaches of his obligations under the sale and purchase agreement between Yi Feng and Mr. KL Lee dated 30 December 2013. We are entitled to claim from Mr. KL Lee representations and warranties to indemnify our Group for all losses, costs and damages in relation to our Group’s acquisition of the China Scivest WTE Plant.

In addition, our Controlling Shareholders have also irrevocably undertaken, under the Deed of Indemnity, to fully indemnify our Group, on a joint and several basis, against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines suffered or incurred or accrued by our Group directly or indirectly, arising from, as a result of or in connection with any loss and/or penalty resulting from the issues relating to the construction related licenses and permits of our China Scivest WTE Plant.

Please refer to the section headed “Property valuation” in Appendix III to this [Redacted] for further information about the properties owned by our Group.

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**LEGAL COMPLIANCE AND PROCEEDINGS**

We are not currently a defendant in any material litigation, claim, administrative action or arbitration, and we confirm, after making due inquiries, that there is no pending or threatened proceeding which we believe would have a material adverse effect on our results of operations or financial condition.

We did not suffer any major breakdown, failure, interruption or substandard performance of equipment, improper installation or operation of equipment, labour disturbance, natural disaster, environmental hazard or industrial accident during the Track Record Period and up to the Latest Practicable Date.

**Licences and permits**

For the operation of our WTE business, we are specifically required to obtain the following material permits and licences:

- electric power business licence (電力業務許可證);
- municipal solid waste processing service operating permit (城市生活垃圾經營性處理服務許可證);
- pollutant discharge permit (排污許可證).

The following table sets out the relevant dates of the material permits and licences we have obtained:

	Electric power business licence		Municipal solid waste processing service operating permit		Pollutant discharge permit	
	<i>Date granted</i>	<i>Date of expiry</i>	<i>Date granted</i>	<i>Date of expiry</i>	<i>Date granted</i>	<i>Date of expiry</i>
<b>Eco-Tech WTE Plant</b>	September 2007	September 2027	May 2014	May 2015	April 2011	April 2016
<b>Kewei WTE Plant</b>	November 2012	November 2032	May 2014	April 2015	February 2013	February 2018
<b>China Scivest WTE Plant</b>	December 2007; updated in August 2014	December 2027	May 2014	May 2015	April 2014	January 2015

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During the Track Record Period, we did not face any material impediments in renewing the material permits and licences we have obtained. We need to re-apply certain licences and permits for Eco-Tech WTE Plant upon completion of its Technological Upgrade. Please refer to the paragraph headed “Our projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” above for an overview of the legal framework of the Technological Upgrade and the expected timeframe for obtaining such licenses and permits. The municipal solid waste processing service operating permits of Kewei and China Scivest will expire in April 2015 and May 2015, respectively. In addition, the pollutant discharge permit of China Scivest will expire in January 2015. We undertake to apply for renewal of these permits and expect to obtain the renewed permits before their respective expiry dates. As advised by our PRC Legal Advisers, if the relevant application documents are submitted to the relevant authorities in accordance with the application requirements, laws and regulations, and the relevant authorities are of the view that such renewal is in compliance with the application conditions and the requirements under the relevant laws and regulations, there are no material legal impediments to renewing the relevant licences and permits. During the Track Record Period and up to the Latest Practicable Date, we failed to properly obtain certain required licences and permits, details of which are set out in the paragraph headed “Historical non-compliance incidents” below. Save as aforesaid, we have all necessary licences and permits which are necessary for our WTE business and none will expire within six months following the date of this [Redacted].

### **Historical non-compliance incidents**

During the Track Record Period, we have failed to comply with a number of relevant laws, rules and regulations applicable to us. The following summarises certain non-compliance incidents of our Group.

### **Unauthorised power sales**

According to PRC laws and regulations, a power company may not directly sell electricity to its customers without the necessary licenses and permits. Pursuant to the power purchase agreements which Dongguan Power Supply Bureau entered into with Eco-Tech and Kewei, respectively, Eco-Tech and Kewei may not sell electricity to customers without approval from the relevant PRC competent authority. Historically, as requested by certain local users, our Eco-Tech WTE Plant and our Kewei WTE Plant sold electricity to two nearby independent customers, which was not in compliance with the power purchase agreements with Dongguan Power Supply Bureau and the relevant PRC laws and regulations. The total proceeds of such direct power sales by our Eco-Tech WTE Plant and Kewei WTE Plant were RMB96,306, RMB105,006, RMB106,494 and RMB16,554, for the three years ended 31 December 2013 and the six months ended 30 June 2014, respectively. At the material time, our administrative managers were not aware that such minimal sales of power would constitute a breach of law. Each of our Eco-Tech WTE Plant and our Kewei WTE Plant has ceased selling power directly to these customers since April 2014.

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As advised by our PRC Legal Advisers, South China Energy Regulatory Bureau of National Energy Administration of the PRC (國家能源局南方監督局) is the competent governing authority of the electricity industry in Guangdong Province. As advised by our PRC Legal Advisers, based on relevant PRC laws and regulations, the maximum administrative penalty for such incident of non-compliance is forfeiture of the illegal proceeds and a fine of five times of the amount of the illegal proceeds. As such, Eco-Tech and Kewei are subject to maximum fines of RMB1,533,255 and RMB88,545, respectively, and forfeiture of the illegal proceeds from the above mentioned non-compliance incidents. As advised by our PRC Legal Advisers, given that (i) the proceeds derived from the incidents of non-compliance are of relatively small amounts, and (ii) written confirmations confirming that Eco-Tech and Kewei have been operating in compliance with electricity business related laws and regulations since 2010 and the establishment of Kewei, respectively, were issued by the South China Energy Regulatory Bureau of National Energy Administration of the PRC (國家能源局南方監督局) (as confirmed by the Company, it was aware of such incidents when the written confirmation was issued), it is unlikely that Eco-Tech and Kewei will be penalised by the South China Energy Regulatory Bureau of National Energy Administration of the PRC with respect to such incidents of non-compliance. On such basis and based on the immaterial amount, no provision was made by our Group.

As advised by our PRC Legal Advisers, according to relevant PRC laws and regulations, where any entity generates illegal operation revenue (i.e. unauthorised power sale revenue) of RMB500,000 or more, or illegal income of RMB100,000 or more, or continues with certain illegal operation after being imposed on administrative penalties for the same illegal operation for twice or more during the past two years, the competent criminal authority shall launch prosecution against such illegal operation. As advised by our PRC Legal Advisers, on the basis that (i) by the above mentioned incidents of non-compliance, Eco-Tech and Kewei do not meet the threshold to trigger criminal prosecution; (ii) confirmations on past no criminal or public security record by relevant public security bureaus being obtained; and (iii) as confirmed by the Eco-Tech and Kewei, up to the Latest Practicable Date, neither Eco-Tech or Kewei has been held administratively or criminally liable for such incidents of non-compliance since their respective establishment, it is remote that Eco-Tech or Kewei or the personnel in charge will be prosecuted for such incident of non-compliance.

### **MSW Processing Permit**

According to relevant PRC laws and regulations became effective in July 2007, a company may not engage in the processing of municipal solid waste before obtaining a municipal solid waste processing service operating permit (城市生活垃圾經營性處理服務許可證) (“**MSW Processing Permit**”). Historically, Eco-Tech, Kewei and China Scivest were engaged in the processing of municipal solid waste before obtaining MSW Processing Permits and as such, were not in compliance with the relevant PRC laws and regulations.

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No.	Subsidiary involved	Date of commencement of commercial operation	Date of obtaining MSW Processing Permit	Cause(s) of the non-compliance	Potential maximum penalty or fine
1.	Eco-Tech	18 September 2007	16 May 2013	(1) For Eco-Tech and Kewei: Eco-Tech and Kewei did not apply for the MSW Processing Permit at the material time as the then administrative managers were not aware of this requirement or any similar plants in Dongguan area were in the process of obtaining this permit; and the competent authority did not require Eco-Tech or Kewei to obtain the MSW Processing Permit.	As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the maximum penalty for failure to obtain MSW Processing Permit is an order from the competent government authority that such operation activities be suspended, and a maximum fine of RMB30,000.
2.	Kewei	6 November 2012	26 April 2013		As advised by our PRC Legal Advisers, as (i) Eco-Tech and Kewei have respectively entered into waste supply contracts with various government authorities and all of these contracts are in turn verified by Dongguan Municipal Administration; and (ii) following the verbal enquiries with and written confirmations by the Dongguan Municipal Administration, Eco-Tech, Kewei and China Scivest currently hold valid licences for WTE activity and
3.	China Scivest	18 December 2007	12 May 2014	(2) For China Scivest: Before our acquisition of China Scivest in January 2014, China Scivest did not operate with an MSW Processing Permit from July 2007 till its suspension of operation for Technological Upgrade in 2011. China Scivest resumed operation in July 2013 and subsequently obtained its MSW Processing Permit.	Eco-Tech, Kewei and China Scivest’s WTE activity since their respective establishment has been acknowledged by competent government authority, it is unlikely that our Group would be penalised by the Dongguan Municipal Administration with respect to such historical incidents of non-compliance.
					As advised by our PRC Legal Advisers, the Dongguan Municipal Administration is the competent government authority to issue such written confirmations.

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**Land use rights and buildings ownership certificates and other related certificates**

The construction of Eco-Tech WTE Plant and the Kewei WTE Plant were completed on 30 December 2005 and 31 July 2011, respectively. Historically, we did not obtain certain permits and certificates with respect to the buildings occupied by Eco-Tech WTE Plant and Kewei Plant (*Note*) and the Eco-Tech Land No.1 and Eco-Tech Land No.2 where these buildings locate.

We have subsequently obtained the outstanding permits and certificates from the relevant authorities, details of which are set out in the following table:

<b>Name of certificate(s)</b>	<b>Cause(s) for the non-compliance incidents</b>	<b>Date of obtaining all relevant certificate(s)</b>	<b>Issuing authority</b>	<b>Remarks</b>
Construction land use planning permit (建設用地規劃許可証)	Historically, we obtained a construction land use planning permit (建設用地規劃許可証) for a piece of land of 113,938.68 square metres on 5 March 2004. Subsequently, due to the change of land use planning over part of this parcel of land by the local government, we liaised with the local government with respect to the mechanism for the exchange of the affected part of this parcel of land which then caused delay in obtaining the construction land use planning permit for the exchanged land (i.e. Eco-Tech Land No. 2).	5 March 2014 for Eco-Tech Land No. 2	Dongguan Urban-Rural Planning Bureau (東莞市城鄉規劃局)	<p>The maximum penalty for failure to obtain the construction land use planning permit (建設用地規劃許可証) for Eco-Tech Land No. 2 is revocation of the relevant land use right approval by the competent government authority. However, as advised by our PRC Legal Advisers, given that the relevant updated certificates have been obtained, and based on a compliance certificate issued by the Dongguan Urban-Rural Planning Bureau (東莞市城鄉規劃局), it is unlikely that our Group would be penalised by the competent town planning authorities with respect to such incident of non-compliance.</p> <p>As advised by our PRC Legal Advisers, Dongguan Urban-Rural Planning Bureau is the competent governing authority to issue the compliance certificate.</p>

*Note:* Currently, twelve buildings built and owned by Eco-Tech are located on Eco-Tech Land No. 1 and Eco-Tech Land No. 2, and among which, six buildings are leased to Kewei WTE Plant by Eco-Tech.



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<b>Name of certificate(s)</b>	<b>Cause(s) for the non-compliance incidents</b>	<b>Date of obtaining all relevant certificate(s)</b>	<b>Issuing authority</b>	<b>Remarks</b>
Land use right certificate (國有土地使用權証)	Due to the exchange of land as mentioned above, the construction land use planning permits for these parcels of land were only obtained on 14 April 2011 and 5 March 2014, respectively	19 August 2011 for Eco-Tech Land No. 1  13 March 2014 for Eco-Tech Land No. 2	Dongguan Municipal People’s Government (東莞市人民政 府)	For Eco-Tech Land No. 2, a fine of RMB222,940 was imposed on Eco-Tech and paid in full on 21 January 2011.  For Eco-Tech Land No. 1, our PRC Legal Advisers are of the view that as Eco-Tech obtained the land use right certificate on 19 August 2011 and the two-year limitation period for administrative penalty has lapsed, as such Eco-Tech will not be penalised by the competent land administration authority with respect to such incident of non-compliance.

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Name of certificate(s)	Cause(s) for the non-compliance incidents	Date of obtaining all relevant certificate(s)	Issuing authority	Remarks
Construction work planning permit (建設工程規劃許可証)	Consequential breach due to failure in obtaining the land use right certificate (國有土地使用權証)	27 September 2013 for five buildings of Eco-Tech WTE Plant and 17 December 2013 for the other one building of Eco-Tech WTE Plant	Dongguan Urban-Rural Planning Bureau (東莞市城鄉規劃局)	<p>A fine of RMB748,189 was imposed on Eco-Tech in relation to the main plant building of Kewei WTE Plant, such building is leased to Kewei WTE Plant by Eco-Tech and the fine was paid in full on 30 May 2014. No fine has been imposed on Eco-Tech yet for the buildings located on Eco-Tech Land No.1. For Eco-Tech, the maximum penalty for failure to obtain construction work planning permit (建設工程規劃許可証) for the buildings located on Eco-Tech Land No. 1 is an order from the competent government authority that such buildings be demolished or confiscated, and a maximum fine amount to 10% of the construction costs (i.e. being about RMB4.2 million). However, as advised by our PRC Legal Advisers, given that the relevant certificates have subsequently been obtained, and based on the compliance certificates issued by the Dongguan Urban-Rural Planning Bureau (東莞市城鄉規劃局), it is unlikely that our Group would be penalised by the competent town planning authorities with respect to such incident of non-compliance. It is also advised by our PRC Legal Advisers that, our Group will not be further penalised by the competent town planning authorities with respect to the main plant building of Kewei WTE Plant.</p> <p>As advised by our PRC Legal Advisers, Dongguan Urban-Rural Planning Bureau is the competent governing authority to issue the compliance certificates.</p>

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Name of certificate(s)	Cause(s) for the non-compliance incidents	Date of obtaining all relevant certificate(s)	Issuing authority	Remarks
Building safety inspection certificate (房屋安全檢查證書) (in place of (work completion inspection acceptance registration certificate (竣工驗收備案證書) and construction work commencement permit (施工許可証))	Consequential breach due to failure in obtaining the land use right certificate (國有土地使用權証)	11 November 2013 for five buildings of Eco-Tech WTE Plant and 24 December 2013 for the other one building of Eco-Tech WTE Plant	Dongguan Housing and Urban-Rural Development Bureau (東莞市住房和城鄉建設局)	A fine of total RMB309,057 was imposed on Eco-Tech for the delay in obtaining construction work commencement permit in relation to the buildings of Eco-Tech WTE Plant and Kewei-WTE Plant and was paid in full on 29 May 2014.
		24 December 2013 for five buildings of Kewei WTE Plant and 30 May 2014 for the other one building of Kewei WTE Plant		No fine has been imposed on Eco-Tech yet for the delay in obtaining the work completion inspection acceptance registration certificate. The maximum penalty for such failure is a fine of RMB 500,000. As advised by our PRC Legal Adviser, given that Eco-Tech has obtained the building safety inspection certificates, it is unlikely that our Group would be penalised by the competent construction authorities with respect to such incident of non-compliance.

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Name of certificate(s)	Cause(s) for the non-compliance incidents	Date of obtaining all relevant certificate(s)	Issuing authority	Remarks
Fire control acceptance certificate (建設工程消防驗收意見書)	Consequential breach due to failure in obtaining the other relevant permits as mentioned above. We subsequently obtained the fire control acceptance certificates during rectification of the above-mentioned incidents of non-compliance.	30 May 2013 for the buildings of Kewei WTE Plant	Dongguan Public Security and Fire Safety Bureau (東莞市公安消防局)	<p>The maximum fine for failure in obtaining fire control acceptance certificate (建設工程消防驗收意見書) for several buildings of Kewei WTE Plant is RMB300,000. However, as advised by our PRC Legal Advisers, given that the relevant certificate has been obtained subsequently, and based on verbal enquiries with the Dongguan Public Security and Fire Safety Bureau (東莞市公安消防局), it is unlikely that our Group would be penalised by the competent fire safety authorities with respect to such incident of non-compliance mentioned above after obtaining the fire control acceptance certificate (建設工程消防驗收意見書).</p> <p>As advised by our PRC Legal Advisors, the Dongguan Public Security and Fire Safety Bureau is the competent governing authority for fire control acceptance.</p>

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### **Production safety supervision and management procedures**

Historically, Eco-Tech, Kewei and China Scivest did not attend to the relevant procedures for the prevention and control of occupational disease for the WTE plants which are likely to cause occupational diseases and hazards.

<b>Subsidiary involved</b>	<b>Cause(s) for the non-compliance incidents</b>	<b>Rectification actions taken</b>	<b>Potential maximum fines/penalties and legal consequences</b>
Eco-Tech Kewei China Scivest	The administrative managers of Eco-Tech, Kewei and China Scivest were not familiar with the relevant laws and regulations.	<p>Our Eco-Tech completed the relevant procedures for the prevention and control of occupational diseases and hazards and obtained the approval from the Dongguan Production Safety Supervision and Management Bureau for its Technological Upgrade construction on 14 July 2014.</p> <p>Kewei and China Scivest completed the relevant procedures and obtained the approval from the Dongguan Production Safety Supervision and Management Bureau for their respective existing facilities on 14 August 2014 and 25 July 2014, respectively.</p>	As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, the production safety supervision and management authority is entitled to issue warning and correction order in a prescribed time, and in the event of failure to rectify accordingly may be subject to a maximum fine of RMB500,000, the subsidiary involved may also be ordered to stop its production which may cause occupational diseases and hazards.

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<b>Subsidiary involved</b>	<b>Cause(s) for the non-compliance incidents</b>	<b>Rectification actions taken</b>	<b>Potential maximum fines/penalties and legal consequences</b>
			<p>As advised by our PRC Legal Advisers, based on the verbal enquiries with the Dongguan Production Safety Supervision and Management Bureau (東莞市安全生產監督管理局), given that (i) Kewei and China Scivest have retrospectively completed the relevant procedures for Kewei WTE Plant and China Scivest WTE Plant respectively, and there will not be any fine imposed on Kewei or China Scivest for the historical non-compliance, (ii) Eco-Tech has suspended operation for the Technological Upgrade and shall proceed with procedures for pre-assessment on occupational diseases and hazards for the Technological Upgrade, which has been completed by Eco-Tech as at the date of this [Redacted], and prior to the suspension of operation, there was no accident caused by occupational diseases and hazards in Eco-Tech WTE Plant, and (iii) no other non-compliance with laws and regulations related to production safety supervision by the three WTE plants has been discovered, our PRC Legal Advisers are of the view that it is unlikely that Eco-Tech, Kewei or China Scivest would be penalised by the Dongguan Production Safety Supervision and Management Bureau for such incidents of non-compliance.</p> <p>As advised by our PRC Legal Advisers, Dongguan Production Safety Supervision and Management Bureau is the competent governing authority to give the above confirmations.</p>

**Incidences of non-compliance with the Predecessor Companies Ordinance/Companies Ordinance**

During the due diligence exercise in preparation for the [Redacted], some incidents of non-compliance committed by our wholly owned subsidiaries incorporated in Hong Kong under the Predecessor Companies Ordinance and/or the Companies Ordinance were identified. Section 351A of the Predecessor Companies Ordinance provides that an offence under the Predecessor Companies Ordinance may be prosecuted only if the prosecution is initiated (amongst others) within three years after the commission of the offence. Therefore, non-compliances committed prior to such period are time-barred unless non-compliances are continuous in nature and therefore, no remedial action is required for such time-barred non-compliances.

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Our wholly owned subsidiaries incorporated in Hong Kong committed the following non-compliances during the three years preceding the date of this [Redacted]:

No.	Relevant section of the then applicable Companies Ordinance	Subsidiar(ies) involved	Particulars of the non-compliance	Causes of the non-compliance	Remedial actions	Potential maximum penalty or fine	Period(s) of which the non-compliance occurred
1	Section 111(1) of the Predecessor Companies Ordinance	World Prosperous	Failing to convene the first annual general meeting within 18 months of its incorporation	The directors relied on the advice and experience of the secretary, being a secretarial service company engaged by World Prosperous, at the material time.	Our Group applied to the Court on 25 August 2014 for orders to rectify such non-compliance and the hearing date was fixed to 28 October 2014.	HK\$50,000 (for each of the subsidiary and its officers)	N/A
2	Section 111(1) of the Predecessor Companies Ordinance	World Honour China Green Power Anabell Hong Tong Hai	Failing to convene an annual general meeting within 15 months after the preceding annual general meeting	(a) Our Group acquired China Green Power, Anabell and Hong Tong Hai in January 2014, and had not been involved in the daily management of these subsidiaries before the acquisition;	Our Group applied to the Court on 25 August 2014 for orders to rectify such non-compliance and the hearing date was fixed to 28 October 2014.	HK\$50,000 (for each of the subsidiary and its officers)	The year 2011 for World Honour The year 2011 for China Green Power The year 2012 for Anabell The year 2011 for Hong Tong Hai
3	Sections 122(1) and 122(1A) of the Predecessor Companies Ordinance	World Honour World Prosperous China Green Power Anabell Hong Tong Hai	Failing to provide profit and loss account that were made within nine months before the date of the annual general meeting	(b) the directors relied on the advice and experience of the secretarial service company engaged by the subsidiaries, at the material time.	Our Group applied to the Court on 25 August 2014 for orders to rectify such non-compliance and the hearing date was fixed to 28 October 2014.	The director who fails to take reasonable steps to comply with the relevant provisions are liable to a fine of HK\$300,000 and 12 months imprisonment; no penalty/fine on the relevant subsidiaries.	The years 2010 to 2012 for China Green Power and Hong Tong Hai The years 2012 and 2013 for World Prosperous The years 2010 to 2011 for World Honour The years 2011 and 2012 for Anabell

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**BUSINESS**

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As advised by our legal adviser in relation to the non-compliance of section 111 and section 122 of the Predecessor Companies Ordinance, Mr. Vincent Lung, barrister-at-law in Hong Kong (the “**Adviser**”) who was called to the bar in 2007, each of the directors of the relevant Hong Kong subsidiaries is potentially liable for non-compliance with section 122 of the Predecessor Companies Ordinance. Further, each of the relevant Hong Kong subsidiaries and their officers are potentially liable for non-compliance with section 111 of the Predecessor Companies Ordinance. The Adviser is of the view that (i) there is only remote prospect that the relevant Hong Kong subsidiaries or their directors at the material times will be prosecuted; (ii) the Court would not impose any sentence of imprisonment against any particular director regarding the section 122 default unless the Court is of the opinion that the offence was committed wilfully; and (iii) if prosecution is initiated on the section 122 default, the directors will have an arguable defence. The Adviser is of the view that the maximum fine of HK\$300,000 under section 122 of the Predecessor Companies Ordinance is most unlikely to be triggered.

The Adviser’s above mentioned opinion is based on the following reasons: (i) the non-compliances were inadvertent and were likely due to genuine mistakes; (ii) evidence from the affected shareholders or ultimate beneficial owners of the Hong Kong subsidiaries shows that no prejudice has been caused to them as a result of the non-compliances; and (iii) remedial actions had been taken by the relevant Hong Kong subsidiaries.

During the due diligence exercise in preparation for the [Redacted], the following late filing incidents committed by our wholly owned subsidiaries incorporated in Hong Kong under the Predecessor Companies Ordinance/Companies Ordinance during the three years preceding the date of this [Redacted] were identified:

No.	Subsidiar(ies) involved	Relevant section of the then applicable Companies Ordinance	Particulars of the non-compliance	Causes of the non-compliance	Remedial actions	Potential maximum penalty or fine	Period(s) of which the non-compliance occurred
1	Canvest Group Investments	Section 645(1) of the Companies Ordinance	Late filing in relation to change of particulars of director	The directors relied on the services provided by a secretarial service company engaged by Canvest Group Investments.	Filing was made on 11 June 2014.	HK\$25,000 and a daily fine of HK\$700 on the subsidiary and each responsible person of the subsidiary, leading to a potential maximum fine of HK\$45,300 on Canvest Group Investments	The year 2014



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No.	Subsidiar(ies) involved	Relevant section of the then applicable Companies Ordinance	Particulars of the non-compliance	Causes of the non-compliance	Remedial actions	Potential maximum penalty or fine	Period(s) of which the non-compliance occurred
2	China Green Power, Anabell and World Honour	Section 92(3) of the Predecessor Companies Ordinance	One incident of late filing in relation to change of registered address for each of China Green Power, Anabell and World Honour	(a) Our Group acquired China Green Power and Anabell in January 2014, and had not been involved in the daily management of this subsidiary before the acquisition;  (b) The directors of World Honour had very limited understanding of Hong Kong laws and the requirements under the Predecessor Companies Ordinance;  (c) the directors relied on the advice and experience of the secretaries at various times, including a secretarial service company engaged by World Honour.	Filings were made on 24 July 2012.	HK\$10,000 and a daily fine of HK\$300 on the subsidiary and each relevant officer, leading to a potential maximum fine of HK\$20,200 on each of China Green Power, Anabell and World Honour	The year 2012

During the Track Record Period and up to the Latest Practicable Date, there has not been any prosecution initiated against the Group or the then and current directors of the Hong Kong subsidiaries, nor has any of them been subject to any fine relating to the above disclosed incidents of non-compliance. Our Controlling Shareholders have irrevocably undertaken, under the Deed of Indemnity, to fully indemnify our Group, on a joint and several basis, against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines suffered or incurred or accrued by our Group directly or indirectly, arising from, as a result of or in connection with any loss and/or penalty resulting from or in respect of the above incidents of non-compliance. For details of the indemnities given by our Controlling Shareholder, please refer to the section headed “E. Other information — 1. Tax and other indemnities” in Appendix VI to this [Redacted]. Therefore, no provision has been made in our financial statements in respect of the above potential liabilities. The Directors are of the view that the above incidents of non-compliance should not result in a material operational or financial impact on our Group.

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### **INTERNAL CONTROL**

#### **Key internal control measures implemented by our Group**

Our Board recognises the importance of good corporate governance and strives to improve it through different means.

To ensure continued compliance with applicable laws and regulations:

- We will establish a compliance department before [Redacted] to oversee our licensing matters, as well as other compliance issues which may arise from time to time. We intend to recruit a PRC qualified lawyer to supervise the work of the compliance department going forward.
- The compliance department, through arranging training sessions delivered by qualified PRC lawyers and other means, will keep the management abreast of any newly promulgated rules and regulations that are applicable to our Group and the on-going obligations and duties and licensing requirement that are relevant to our operations.
- The Company will also retain external legal advisers to provide advice on specific legal issues as and when appropriate.

To enhance our internal audit function and ensure compliance with our internal policies:

- We will establish an internal audit department before [Redacted] to periodically review and ensure that our operations comply with our internal policies. In the event of any deviation, the internal audit department will be responsible to initiate and implement steps to rectify the same. We intend to recruit an accountant with extensive audit experience to supervise the work of the internal audit department going forward.
- The internal audit department will also review material contracts and major capital expenditure.
- Our Board has established a corporate governance committee on [●] 2014 which consists of Ms. Loretta Lee, an executive Director and our chairlady, and our three independent non-executive Directors. For the duties of the corporate governance committee, please refer to “Directors and senior management — Corporate governance committee” of this [Redacted].

In addition to the above, we have also undertaken the following measures in order to achieve a higher standard of internal control after the [Redacted]:

- The Directors have attended training sessions conducted by its legal adviser on the on-going obligations and duties of directors of a [Redacted].
- We have appointed [Redacted] as our [Redacted] with effect from the date of the [Redacted] to advise on ongoing compliance with the [Redacted] and other applicable [Redacted] in Hong Kong.

## **BUSINESS**

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- Going forward, the Company will also arrange training courses each year in relation to directors’ duties and regulatory requirements and matters relating to our Group’s daily operation to all executive Directors and senior management members.

Our Directors are of the view that the internal control measures are adequate and effective to enhance the internal control of our Group. After taking into account the nature and reasons for the historical non-compliance incidents, the confirmation of the relevant competent government authorities, the above rectification measures taken by our Group in respect of our business nature and operation scale, our Directors are of the view, and the Sole Sponsor concur that, the non-compliance incidents do not have material adverse impact on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the [Redacted] and our suitability for [Redacted] under Rule 8.04 of the [Redacted]. On the basis of the preventive measures mentioned above, our Directors are of the view and the Sole Sponsor concurs that we have adequate and effective internal control procedures in place.

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

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### **OUR CONTROLLING SHAREHOLDERS**

Immediately following completion of the [Redacted] and the [Redacted], Ms. Loretta Lee, Mr. KM Lai, VISTA Co, Best Approach and Century Rise will control more than 30% of our issued share capital, irrespective of whether the [Redacted] is exercised partially or fully, or at all, and hence, for the purpose of the [Redacted], will continue to be our Controlling Shareholders. For further information on the shareholding of our Controlling Shareholders, please refer to the section headed “Substantial Shareholders” in this [Redacted]. Each of the Controlling Shareholders confirms that he or she or it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business upon [Redacted]. As at the Latest Practicable Date, each of VISTA Co, Best Approach and Century Rise are holding companies without any business operation.

### **INDEPENDENCE OF OUR GROUP**

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, the Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) **Financial independence**

Our Group has an independent financial system and makes financial decisions according to our own business needs. The amounts due to or from our Controlling Shareholders have been fully settled and there is no personal guarantee from our Controlling Shareholders to us. We have sufficient capital to operate our business independently, and have adequate internal resources, including the proceeds from the [Redacted], to support our daily operations.

(ii) **Operational independence**

We have established our own organisational structure, and each department is assigned to specific areas of responsibilities. Other than the transactions set out in the sections headed “Continuing connected transactions” for the use of certain trademarks, no services or facilities are intended to be provided to our Group by our Controlling Shareholders and/or their associates subsequent to the [Redacted]. Our Group is able to operate independently from our Controlling Shareholders after the [Redacted]. Our Group has also established a set of internal control policy to facilitate the effective operation of our business.

(iii) **Management independence**

Our Company maintains an independent Board to oversee our Group’s business. Our Board is responsible for considering and approving the overall business plans and strategies of our Group,

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

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monitoring the implementation of these plans and strategies, and the general management of our Company. Our Group has an independent management team, which is led by our executive Directors and a team of senior managers with substantial experience and expertise in our business, to implement our Group’s policies and strategies.

Our Board consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Ms. Loretta Lee and Mr. KM Lai, each of whom a Controlling Shareholder, are our chairlady and deputy chairman, respectively.

Each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist. In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and our Directors or their respective associates, such interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum.

### **COMPETING BUSINESS**

The Controlling Shareholders and our Directors do not have any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 8.10 of the [Redacted].

### **DEED OF NON-COMPETITION**

In order to avoid any potential competition between Ms. Loretta Lee, Mr. KM Lai, VISTA Co, Best Approach and Century Rise, each of whom a Controlling Shareholder (each, a “**Covenantor**” and together, the “**Covenantors**”) and our Group, the Covenantors executed a deed of non-competition (together, the “**Deed**”) on [●] 2014 in favour of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deed, during the period that the Deed remains effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that he or she or it shall not, and shall procure his or her or its associates or companies controlled by him or her or it (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group in the PRC or any other area in which our Group carries on business, save for the holding of not more than 5% shareholding interests (individually or with his or her or its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his or her or its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with his or her or its associates).

When business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall, within a period of 30 days (which may be extended to 60 days if requested by all of our independent

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**RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

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non-executive Directors, or such longer period if we are required to complete any approval procedures as set out under the [Redacted] from time to time), inform the Covenantor(s) whether we will exercise the right of first refusal or not. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The undertakings mentioned above are conditional upon the [Redacted] of the [Redacted] granting the [Redacted] of, and [Redacted], our Shares on the [Redacted] and all conditions precedent under the [Redacted] having been fulfilled (or where applicable, waived), and the [Redacted] not having been terminated in accordance with their respective terms. If any such condition is not fulfilled on or before the date falling 30 days after the date of this [Redacted], the Deed shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed.

The Deed shall terminate on the earliest of (i) the date on which the Controlling Shareholders and their associates cease to be interested in 30% (or such other amount as may from time to time be specified in the [Redacted] as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which our Shares cease to be [Redacted] on the [Redacted] (except for [Redacted] on the [Redacted] due to any reason).

In connection with the Deed, where the equity capital in the Company, Best Approach, Century Rise and/or VISTA Co forms the whole or part of the trust asset of the Harvest VISTA Trust (or any subsequent replacement trust arrangement) which is managed by any professional trust company, the Deed shall not be applicable to the following persons (notwithstanding their being deemed to be the associates of VISTA Co under the [Redacted]):

- (a) the directors of VISTA Co (if any) who are nominated by the said professional trust company who are represented by employees or officers of such professional trust company; and
- (b) any holding company, subsidiaries or fellow subsidiaries of the professional trust company,

provided that any person falling under (a) or (b) who is a beneficiary of the Harvest VISTA Trust and their respective family members or any family members of Ms. Loretta Lee and Mr. KM Lai shall not be entitled to the above exclusion.

In addition, the Covenantors have undertaken to us:

- (i) to provide all information necessary for the evaluation of the enforcement of the Deed as requested by our Company from time to time; and

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

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- (ii) to make an annual confirmation as to compliance with his or her or its undertaking under the Deed for inclusion in the annual report of our Company.

Each of the Controlling Shareholders undertakes to our Company that he or she or it would, during the term of the Deed, indemnify and keep indemnifying our Company and our Group against any loss suffered by our Company or any members of our Group (as relevant) arising out of any breach of any of his or her or its undertaking under the Deed.

### **CORPORATE GOVERNANCE**

Our Board will consist of not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgement in its decision-making process and provide independent advice to our Shareholders. We will ensure that our independent non-executive Directors are of sufficient caliber, knowledge and experience, have no connection or relationship with us or our connected persons and will carry weight in our decision-making process.

We have adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing businesses and to safeguard the interests of our Shareholders:

- Our Controlling Shareholders will make an annual declaration on compliance with their undertakings under the Deed in the annual report of our Company;
- Our independent non-executive Directors will review, at least on an annual basis, the compliance of our Controlling Shareholders with the Deed; and
- We will make disclosures in our annual reports or by way of announcements regarding the review conducted by our independent non-executive Directors relating to such compliance with and enforcement of the Deed including, among others, any new business opportunity turned down by our Company under the Deed and basis thereon.

Based on the above, our Board is satisfied that there are sufficient and effective preventive measures to manage conflicts of interest and our Board is able to operate independently of our Controlling Shareholders.

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## CONTINUING CONNECTED TRANSACTIONS

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### CONNECTED PERSONS

Upon the [Redacted], the following persons, with whom we have entered into certain transactions, will become our Connected Persons:

#### *Oceanic Ease*

Oceanic Ease is the registered owner of the Hong Kong Trademarks (defined below). The issued share capital of Oceanic Ease is held as to 55% by Mr. KM Lai and as to 45% by Ms. Loretta Lee. Each of Mr. KM Lai and Ms. Loretta Lee is a Director. As such, Oceanic Ease is a Connected Person and any of our transaction with it will constitute a connected transaction.

#### *Canvest Investments*

Canvest Investments has applied for registration of certain PRC Trademarks (as defined below). Canvest Investments is a company currently wholly owned by Mr. Guo Huiqiang, a cousin of Mr. CT Lai and Mr. KM Lai. Canvest Investments was also formerly a holder of equity interest in Eco-Tech and Kewei. Having regard the close relationship between Canvest Investments with our Controlling Shareholders, our Directors consider that Canvest Investments should be treated as a Connected Person and any of our transaction with it will constitute a connected transaction.

#### *Canvest Environmental Investments*

Canvest Environmental Investments is the registered owner of one of the PRC Trademarks (as defined below). Canvest Environmental Investments is a subsidiary of Canvest Investments. For reasons discussed above, our Directors consider that Canvest Environmental Investments should be treated as a Connected Person and any of our transaction with it will constitute a connected transaction.

Upon the [Redacted], the following transactions will constitute continuing connected transactions under the [Redacted] for our Company.

### EXEMPT CONTINUING CONNECTED TRANSACTION

#### **Trademark License**

We have entered into separate trademark licensing agreements with Oceanic Ease, Canvest Investments and Canvest Environmental Investments on [●] 2014. Pursuant to the trademark licensing agreements, Oceanic Ease has granted us a non-transferable and non-assignable license to use the trademarks as set out in the paragraph headed “B. Further information about the business — 2. Intellectual property rights — Hong Kong Trademarks” (the “**Hong Kong Trademarks**”) in Appendix VI to this [Redacted] in Hong Kong for nil consideration. Canvest Investments and Canvest Environmental Investments have granted us non-transferable and non-assignable licenses to use the trademarks as set out in the paragraph headed “B. Further information about the business — 2. Intellectual property rights — PRC Trademarks” (the “**PRC Trademarks**”) in Appendix VI to this



## **CONTINUING CONNECTED TRANSACTIONS**

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[Redacted] in the PRC for nil consideration. Our Company is licensed to use the Hong Kong Trademarks and the PRC Trademarks for our WTE business and any related businesses. Oceanic Ease, Canvest Investments and Canvest Environmental Investments have each granted licenses to our Company to use such trademarks for a term of three years commencing on the date of the respective agreements and such term is subject to renewal upon the written request of our Company, and each renewal shall be of a term of three years. Before the expiration of the trademark licensing agreements, we will decide either to renew any or all of the Trademark Licensing Agreements for the continued use of any or all of the Hong Kong Trademarks and the PRC Trademarks or develop other brands in marketing our business. As we are well-established in waste treatment energy industry in Guangdong Province, we do not expect any potential adverse impact on our business and financial results no matter our Group continues or stops to use any or all of the Hong Kong Trademarks and the PRC Trademarks.

For further information on the trademarks that our Company is licensed to use, please refer to the paragraph headed “B. Further information about the business — 2. Intellectual property rights” in Appendix VI to this [Redacted].

Our Directors consider that the terms of the Trademark Licensing Agreements are in the interests of our Company and the Shareholders as a whole.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board consists of nine members, of which four are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The table below shows certain information in respect of our Directors:

Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Responsibilities
Lee Wing Yee Loretta (李詠怡) (Note 1)	39	Chairlady and executive Director	15 November 2011	28 January 2014	Responsible for formulating our Group’s overall strategies and making major corporate and operational decisions of our Group
Lai Kin Man (黎健文), also known as Li Jianwen (黎建文) (Note 2)	35	Deputy Chairman and executive Director	19 June 2003	10 February 2014	Formulate our Group’s overall strategies and make major corporate and operational decisions of our Group alongside with the chairlady
Yuan Guozhen (袁國楨)	48	Chief Executive Officer and executive Director	19 June 2003	24 September 2014	Responsible for executing the overall strategies and managing the daily operation of our Group
Lai Chun Tung (黎俊東) (Note 3)	39	Executive Director	1 August 2007	24 September 2014	Overseeing the overall strategies of our Group and making major corporate and operational decisions of our Group
Lui Ting Cheong Alexander (呂定昌)	35	Non-executive Director	24 September 2014	24 September 2014	Supervising overall management and strategy planning of our Group
Lai Yui (黎韻)	39	Non-executive Director	24 September 2014	24 September 2014	Supervising overall management and strategy planning of our Group

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Responsibilities
Sha Zhenquan (沙振權)	54	Independent non-executive Director	[●]	[●]	Supervising and providing independent judgement to the Board
Chan Kam Kwan Jason (陳錦坤)	41	Independent non-executive Director	[●]	[●]	Supervising and providing independent judgement to the Board
Chung Wing Yin (鍾永賢)	37	Independent non-executive Director	[●]	[●]	Supervising and providing independent judgement to the Board

*Note:*

1. Ms. Loretta Lee is the wife of Mr. CT Lai, and a cousin-in-law of Mr. KM Lai and Ms. Guo Huilian (our senior management).
2. Mr. KM Lai is a cousin of Mr. CT Lai and Ms. Guo Huilian, and a cousin-in-law of Ms. Loretta Lee.
3. Mr. CT Lai is the husband of Ms. Loretta Lee, and a cousin of Mr. KM Lai and Ms. Guo Huilian.

### Executive Directors

**Ms. Lee Wing Yee Loretta (李詠怡)**, aged 39, was appointed as a Director on 28 January 2014 and re-designated as an executive Director and the chairlady of our Company on 24 September 2014. She joined our Group in November 2011 and is currently responsible for formulating our Group’s overall strategies, and making major corporate and operational decisions of our Group. Ms. Loretta Lee served as an officer of the finance and human resource department of Dongguan Sanyang Industrial Development Co., Ltd (東莞市三陽實業發展有限公司) (formerly known as Dongguan Sanyang Industrial Development Corporation (東莞市三陽實業發展公司)) from September 1997 to September 2012 and the last position she held was manager of the finance and human resource department. The principal business of Dongguan Sanyang Industrial Development Co., Ltd included the trading of heavy oil. Ms. Lee obtained a higher diploma in Public Administration and Management from City University of Hong Kong in November 1997. Ms. Lee is the wife of Mr. CT Lai, and a cousin-in-law of Mr. KM Lai and Ms. Guo Huilian.

Ms. Loretta Lee has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Lai Kin Man (黎健文)**, also known as Li Jianwen (黎建文), aged 35, was appointed a Director on 10 February 2014 and re-designated as executive Director and the deputy chairman of our Company on 24 September 2014. He has been a director of Eco-Tech since June 2003 and a director

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## DIRECTORS AND SENIOR MANAGEMENT

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of Kewei since October 2011. He is, alongside with the chairlady, responsible for formulating our Group’s overall strategies and making major corporate and operational decisions of our Group. Before founding our Group, Mr. KM Lai worked at Dongguan Sanyang Industrial Development Co., Ltd (東莞市三陽實業發展有限公司) (formerly known as Dongguan Sanyang Industrial Development Corporation (東莞市三陽實業發展公司)) from September 1998 to October 2002 and was responsible for business development. He served as the legal representative, chairman and general manager of Canvest Investments from November 2002 to September 2011. Mr. KM Lai obtained an EMBA degree from South China University of Technology (華南理工大學) in December 2008. Mr. KM Lai is a cousin of Mr. CT Lai and Ms. Guo Huilian, and a cousin-in-law of Ms. Loretta Lee.

Mr. KM Lai has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Yuan Guozhen (袁國楨)**, aged 48, was appointed as an executive Director on 24 September 2014. Mr. Yuan is the Chief Executive Officer of our Group. He is responsible for executing the overall strategies and managing the daily operation of our Group. Mr. Yuan is a director of Eco-Tech since June 2003 and a director and general manager of Kewei since October 2011. He is also the legal representative and director of Zhanjiang Yuefeng and Canvest Consultancy since their respective establishment. He served as the executive deputy general manager of Dongguan Sanyang Industrial Development Co., Ltd (東莞市三陽實業發展有限公司) (formerly known as Dongguan Sanyang Industrial Development Corporation (東莞市三陽實業發展公司)) from September 1995 to July 2004 and was mainly responsible for assisting the general manager in the operation and management of the company. Mr. Yuan served as general manager of Dongguan Dongcheng Dongxing Thermal Power Company Limited (東莞東城東興熱電有限公司) (now known as Dongguan China Power New Energy Heat and Power Company Limited (東莞中電新能源熱電有限公司)) from July 2004 to September 2008. He served as the general manager of Yunnan Shuang Xing Green Energy Company Limited (雲南雙星綠色能源有限公司) (now known as Kunming China Energy Environmental Power Company Limited (昆明中電環保電力有限公司)) from November 2007 to December 2008. The principal business of Dongguan China Power New Energy Heat and Power Company Limited, a subsidiary of CPNE, includes natural gas power generation. Yunnan Shuang Xing Green Power Company Limited is also a subsidiary of CPNE and its principal business includes generation and sale of electricity. Mr. Yuan obtained an EMBA degree from South China University of Technology (華南理工大學) in June 2009.

Mr. Yuan has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Lai Chun Tung (黎俊東)**, aged 39, was appointed as an executive Director on 24 September 2014. Mr. CT Lai is the legal representative, general manager and a director of Eco-Tech since August 2007, a director of Kewei since February 2009, and a director of Zhanjiang Yuefeng since its establishment in April 2013. He is responsible for overseeing the overall strategies of our Group, and making major corporate and operational decisions of our Group. Mr. CT Lai is a member of the 10<sup>th</sup> and the 11<sup>th</sup> Guangdong Committee of Chinese People’s Political Consultative Conference (中國人民政治協商會議廣東省委員會), and a standing member of the 12<sup>th</sup> Dongguan Committee of Chinese People’s Political Consultative Conference (中國人民政治協商會議廣東省東莞市委員會). Mr. CT Lai has worked at Dongguan Sanyang Industrial Development Co., Ltd (東莞市三陽實業發展有限公司)

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## **DIRECTORS AND SENIOR MANAGEMENT**

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(formerly known as Dongguan Sanyang Industrial Development Corporation (東莞市三陽實業發展公司)) since September 1997 and is currently its general manager. He has been a director of Dongguan Rural Commercial Bank Co., Ltd (東莞農村商業銀行股份有限公司) since December 2009. Mr. CT Lai obtained a higher diploma in Public Administration and Management from City University of Hong Kong in November 1997. Mr. CT Lai obtained an EMBA degree from South China University of Technology (華南理工大學) in December 2007. Mr. CT Lai is the husband of Ms. Loretta Lee, and a cousin of Mr. KM Lai and Ms. Guo Huilian.

Mr. CT Lai has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

### **Non-executive Directors**

**Mr. Lui Ting Cheong Alexander (呂定昌)**, aged 35, was appointed as a non-executive Director on 24 September 2014. He is a managing director of Olympus Capital Holdings Asia co-leading the environmental investment in Asia. He has been with Olympus Capital Holdings Asia since October 2008. From July 2009 to March 2010, Mr. Lui served as the interim chief financial officer of Zhaoheng Hydropower Holdings Limited (兆恒水電股份有限公司), a current Olympus Capital Holding Asia portfolio company. Prior to joining Olympus Capital Holdings Asia, Mr. Lui worked at Merrill Lynch (Asia Pacific) Limited till August 2008. Mr. Lui graduated from Cornell University with a bachelor of science degree (magna cum laude) and a bachelor of arts degree in May 2001.

Mr. Lui has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Lai Yui (黎觀)**, aged 39, was appointed as a non-executive Director on 24 September 2014. He has been employed by various subsidiaries of BOC International Holdings Limited as managing director since January 2013 and currently is a managing director of CITP Advisor (Hong Kong) Ltd. Before joining BOC International Holdings Limited, he served as a director of Temasek Holdings (Private) Limited since June 2007. Mr. Lai graduated from University of Pennsylvania with a bachelor of science degree (magna cum laude) and a bachelor of arts degree (magna cum laude) in May 1997.

Mr. Lai has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

### **Independent Non-executive Directors**

**Professor Sha Zhenquan (沙振權)**, aged 54, will be appointed as an independent non-executive Director on [●]. He has been a professor of the School of Business Administration of South China University of Technology (華南理工大學) since April 2003. Professor Sha is a member of the 12th National Committee of Chinese People’s Political Consultative Conference (中國人民政治協商會議全國委員會). He is an independent director of Shenzhen Noposion Pesticide Co., Ltd (深圳諾普信農化股份有限公司) (stock code: 002215), Dongling Grain and Oil Co., Ltd. (廣州東凌糧油股份有限公司) (stock code: 000893) and Letong Chemical Co., Ltd. (珠海樂通化工股份有限公司) (stock code: 002319), which are companies listed on the Shenzhen Stock Exchange. He was an independent director of Sincap Group Limited (stock code: 5UN), a company listed on Singapore Exchange from

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## **DIRECTORS AND SENIOR MANAGEMENT**

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May 2012 to September 2014. Professor Sha obtained a bachelor of science degree in mathematics from East China Normal University (華東師範大學) in December 1982, a master’s degree in engineering from South China University of Technology (華南理工大學) in July 1991 and a doctor’s degree in philosophy from City University of Hong Kong in November 2001.

Save as disclosed above, Professor Sha has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Chan Kam Kwan Jason (陳錦坤)**, aged 41, will be appointed as an independent non-executive Director on [●]. Mr. Chan was awarded certified public accountant by the Washington State Board of Accountancy on 26 March 1999. Mr. Chan is the executive director and secretary of Brockman Mining Limited (Stock Code: 0159) and an independent non-executive director of AMCO United Holding Limited (Stock Code: 0630) (formerly known as Guojin Resources Holdings Limited and Jackin International Holdings Limited). He is the company secretary of Frontier Services Group Limited (formerly known as DVN (Holdings) Limited) (Stock Code: 0500). He is also the company secretary of China WindPower Group Limited (Stock Code: 0182) and was the executive director of the same company from December 2006 to January 2014. Each of Brockman Mining Limited, AMCO United Holding Limited, Frontier Services Group Limited and China WindPower Group Limited is a company listed on the Stock Exchange. Mr. Chan obtained a bachelor’s degree in commerce from University of British Columbia in May 1995.

Save as disclosed above, Mr. Chan has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Chung Wing Yin (鍾永賢)**, aged 37, will be appointed as an independent non-executive Director on [●]. Mr. Chung was admitted as a solicitor of the High Court of Hong Kong in August 2002 and a solicitor of the Supreme Court of England and Wales in October 2003, respectively. He is a partner of Li & Partners and has over ten years’ experience in legal professional industry. Mr. Chung’s practice areas include general commercial and corporate matters, IPOs, mergers and acquisitions, and compliance matters of listed companies. Before joining Li & Partners, Mr. Chung worked at several Hong Kong law firms and was mainly involved in cross border commercial projects. Mr. Chung obtained a bachelor of laws degree and a master’s degree in Chinese law from The University of Hong Kong in December 1999 and December 2004, respectively.

Mr. Chung has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

Save as disclosed above, there is no other information relating to the relationship of any of our Directors with other Directors and senior management officers that should be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A of the [Redacted].

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the [Redacted] as of the Latest Practicable Date.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management:

Name	Age	Position	Date of joining the Group	Date of first appointment as senior management	Responsibilities
Song Lanqun (宋蘭群)	47	Vice president and chief engineer	17 February 2004	17 February 2004	Production operation and technology management of our Group
Chen Bo (陳波)	38	Vice president and chief engineer	1 March 2009 (note 1)	1 March 2009	Production operation and technology management of our Group
Wong Ling Fong Lisa (王玲芳)	41	Chief financial officer and company secretary	10 June 2013	10 June 2013	Financial management of our Group
Guo Huilian (郭惠蓮) (Note 2)	45	Vice president	5 August 2011 (note 3)	11 December 2012	In charge of procurement of our Group
Zhang Xunmei (張洵梅)	45	Vice president	1 March 2009 (note 4)	12 June 2012	Financial management of China Scivest and Zhanjiang Yuefeng
Li Yuan (李園)	47	Vice president	1 January 2013 (note 5)	1 January 2013	Business and project development of our Group
Xie Yubin (謝宇斌)	46	Executive deputy general manager	1 April 2005	1 April 2005	Daily management of Eco-Tech and Kewei
Deng Fenghua (鄧風華)	45	Deputy general manager	1 March 2009 (note 6)	15 October 2012	Assisting the chief engineers of our Group in daily production of China Scivest
Chen Wenjie (陳文捷)	46	Deputy general manager	20 July 2006	16 October 2012	Assisting the chief engineers of our Group in daily production of Eco-Tech and Kewei
Chen Jinxi (陳進喜)	41	Deputy general manager	22 May 2006	1 January 2013	Financial management of Eco-Tech and Kewei
Li Deming (李德明)	49	Chief engineer of Eco-Tech and Kewei	12 April 2010	1 September 2013	Assisting the chief engineers of our Group in daily production of Eco-Tech and Kewei

*Note:*

1. Mr. Chen Bo joined China Scivest from Kewei in June 2011, and our Group acquired China Scivest in January 2014.
2. Ms. Guo Huilian is a cousin of Mr. CT Lai and Mr. KM Lai, and a cousin-in-law of Ms. Loretta Lee.
3. Ms. Guo Huilian joined China Scivest in August 2011, and our Group acquired China Scivest in January 2014.
4. Ms. Zhang Xunmei joined China Scivest from Kewei in February 2012, and our Group acquired China Scivest in January 2014.
5. Mr. Li Yuan joined China Scivest in January 2013, and our Group acquired China Scivest in January 2014.
6. Mr. Deng Fenghua joined China Scivest from Eco-Tech in September 2011, and our Group acquired China Scivest in January 2014.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Song Lanqun (宋蘭群)**, aged 47, joined our Group in February 2004 and was appointed as vice president and chief engineer of our Group on 24 September 2014 and is responsible for production operation and technology management of our Group. He serves as an executive deputy general manager of Eco-Tech and Kewei and the general manager of Zhanjiang Yuefeng. Mr. Song was awarded mechanical engineer by Office of Title Reform Leading Group of Huizhou City (惠州市職稱改革工作領導小組辦公室) in August 1995. Mr. Song worked at Guangdong Guohong Electric Power Co., Ltd. (廣東國宏電力有限公司) as deputy general manager and chief engineer from February 1997 to February 2004. The principal business of Guangdong Guohong Electric Power Co., Ltd. included electricity generation. Mr. Song graduated from Hebei College of Technology (河北工學院) (now known as Hebei University of Technology (河北工業大學)) in July 1989 with a bachelor of engineering in thermal power engineering. He obtained a master’s degree in internal combustion engine from Inner Mongolia College of Technology (內蒙古工學院) (now known as Inner Mongolia University of Technology (內蒙古工業大學)) in July 1992. Mr. Song completed the MBA programme of Huazhong University of Science and Technology (華中科技大學) in December 2004.

Mr. Song has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Chen Bo (陳波)**, aged 38, joined Kewei in March 2009 and was appointed as vice president and chief engineer of our Group on 24 September 2014. He joined China Scivest from Kewei in June 2011 as executive deputy general manager and chief engineer. He became a director of China Scivest in December 2012. He is responsible for production operation and technology management of our Group. Mr. Chen first joined Eco-Tech as a chief engineer in March 2003. Mr. Chen served as a deputy general manager and chief engineer of Yunnan Shuang Xing Green Energy Company Limited (雲南雙星綠色能源有限公司) (now known as Kunming China Power Environmental Power Company Limited (昆明中電環保電力有限公司)) from November 2007 to December 2008. Yunnan Shuang Xing Green Energy Company Limited is a subsidiary of CPNE and its principal business includes generation and sale of electricity. Mr. Chen worked at Kewei as the deputy general manager and the chief engineer from March 2009 to May 2011 and then joined China Scivest in June 2011 to lead the Technological Upgrade of China Scivest WTE Plant. Mr. Chen graduated from Northeast Dianli College (東北電力學院) (now known as Northeast Dianli University (東北電力大學)) in July 2000 with a bachelor of engineering degree in thermal power engineering.

Mr. Chen has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Ms. Wong Ling Fong Lisa (王玲芳)**, aged 41, joined our Group in June 2013 as the chief financial officer. She has also been our company secretary since 24 September 2014. Ms. Wong is primarily responsible for the financial management of our Group. She is a member of the Hong Kong Institute of Certified Public Accountants. She was in charge of the investment department of Ng’s International Investment Co. Ltd. from March 2009 to January 2012 and left Ng’s International Investment Co. Ltd. as chief operation officer in the investment department. Ms. Wong was the financial controller responsible for financial planning and daily management of accounting



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## **DIRECTORS AND SENIOR MANAGEMENT**

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department of Wah Yuet (Ng’s) Group Holdings Limited from February 2005 to March 2009. She worked at KPMG from September 1998 to January 2004 and her last position held was manager. Ms. Wong graduated from The Hong Kong Polytechnic University in November 1998 with a degree of bachelor of arts in accountancy.

Ms. Wong has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Ms. Guo Huilian (郭惠蓮)**, aged 45, joined our China Scivest in August 2011 and was appointed as vice president of our Group on 24 September 2014. She is responsible for the administration and procurement of our Group. Ms. Guo currently serves as a director and general manager of China Scivest since August 2011 and January 2013, respectively. She has also been a director of Canvest Consultancy since its establishment in April 2014. She served as a deputy general manager of Dongguan Dongqiang Industrial Development Co., Ltd (東莞市東強實業發展有限公司) from June 1998 to August 2008 and was mainly involved in the management of construction business. Before joining China Scivest, Ms. Guo also served as a deputy general manager of Dongguan Dongcheng Dongxing Thermal Power Company Limited (東莞東城東興熱電有限公司) (now known as Dongguan China Power New Energy Heat and Power Company Limited (東莞中電新能源熱電有限公司)), a subsidiary of CPNE, from November 2008 and was mainly involved in managerial function and financial management of natural gas power generation business. The principal business of Dongguan China Power New Energy Heat and Power Company Limited includes natural gas power generation. Ms. Guo obtained an associate degree (大專學歷) in chemistry from South China Normal University (華南師範大學) in July 1989. Ms. Guo is a cousin of Mr. CT Lai and Mr. KM Lai, and a cousin-in-law of Ms. Loretta Lee.

Ms. Guo has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Ms. Zhang Xunmei (張洵梅)**, aged 45, joined Kewei in March 2009 and was appointed as vice president of our Group on 25 August 2014. She is a director of China Scivest. She joined China Scivest from Kewei in June 2011 and serves as deputy general manager of China Scivest since June 2012. She is responsible for the financial management of China Scivest and Zhanjiang Yuefeng. Ms. Zhang was recognised as assistant engineer by the Department of Personnel of Yunnan Province (雲南省人事廳) in December 1994 and intermediate accountant by Ministry of Personnel (中華人民共和國人事部) (now known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) and the Ministry of Finance of the PRC in May 2005. Ms. Zhang was recognised as intermediate level business administration specialty by the Ministry of Personnel of the PRC in November 2000. She worked at Dongguan Wufang Electrical Engineering Company Limited (東莞市五方電力工程有限公司) in various roles in relation to accounting from November 1996 to October 2005. Before joining our Group in March 2009, Ms. Zhang served as financial manager and the assistant to the general manager of Yunnan Shuang Xing Green Energy Company Limited (雲南雙星綠色能源有限公司) (now known as Kunming China Energy Environmental Power Company Limited (昆明中電環保電力有限公司)) from November 2007 to February 2009. Yunnan Shuang Xing

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## **DIRECTORS AND SENIOR MANAGEMENT**

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Green Energy Company Limited is a subsidiary of CPNE and its principal business includes the generation and sale of electricity. Ms. Zhang graduated from Yunnan College of Technology (雲南工學院) (now merged with Kunming University of Science and Technology (昆明理工大學)) in July 1989 with an associate degree (大專學歷) in industrial moulding design.

Ms. Zhang has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Li Yuan (李園)**, aged 47, joined China Scivest in January 2013 and was appointed as vice president of our Group on 24 September 2014. He serves as the vice president of our Group and is responsible for business and project development of our Group. Mr. Li was awarded qualification of junior safety officer of Guangdong Province by Dongguan Administration of Work Safety (東莞市安全生產監督管理局) in July 2007. He joined Dongguan Zhang Mu Tou Central Harbour Power Company Limited (東莞樟木頭港中電力有限公司) in February 1996. He worked at Dongguan Dongcheng Dongxing Thermal Power Company Limited (東莞東城東興熱電有限公司) (now known as Dongguan China Power New Energy Heat and Power Company Limited (東莞中電新能源熱電有限公司)), a subsidiary of CPNE, from November 2006 to January 2013 and served administration functions. The principal business of Dongguan China Power New Energy Heat and Power Company Limited includes natural gas power generation. Mr. Li obtained an associate degree (大專學歷) in industrial enterprise management from School of Continuing Education of Beijing Normal University (北京師範大學繼續教育學院) in July 1998 through distance learning.

Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Xie Yubin (謝宇斌)**, aged 46, joined our Group in April 2005. He is the executive deputy general manager of Eco-Tech and Kewei and responsible for daily management of such companies. Mr. Xie was recognised as junior level finance and economics specialty by the Ministry of Personnel of the PRC (中華人民共和國人事部) (now known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) in November 1999. Mr. Xie worked at Dongguan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司東莞分行) from March 1993 to April 2005. Mr. Xie graduated from Guangdong University of Technology (廣東工業大學) in July 2003 with an associate degree (大專學歷) in accountancy. He graduated from Central Broadcasting and Television College (中央廣播電視大學) (now known as The Open University of China (國家開放大學)) in January 2009 with a bachelor's graduation certificate in administrative management through distance learning.

Mr. Xie has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Deng Fenghua (鄧風華)**, aged 45, joined Kewei in March 2009 and then joined Eco-Tech in November 2009. He joined China Scivest from Eco-Tech in September 2011. He serves as deputy general manager of China Scivest since October 2012 and is responsible for assisting the chief engineers in daily production of China Scivest. He served as turbine engineer of Eco-Tech from December 2003 to February 2008 and manager of engineering of Kewei from March 2009 to June 2011. Mr. Deng was recognised as assistant engineer in utility engineering by the Bureau of Personnel

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## DIRECTORS AND SENIOR MANAGEMENT

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of Shaoyang City (邵陽市人事局) in September 2003. He worked at Yunnan Shuang Xing Green Energy Company Limited (雲南雙星綠色能源有限公司) (now known as Kunming China Power Environmental Power Company Limited (昆明中電環保電力有限公司)) as deputy chief engineer from March 2008 to January 2009. Yunnan Shuang Xing Green Energy Company Limited is a subsidiary of CPNE and its principal business includes generation and sale of electricity. Mr. Deng graduated from Changsha College of Electric Power (長沙電力學院) (now known as Changsha University of Science & Technology (長沙理工大學)) in December 1995 with an associate degree (大專學歷) in power plant thermal power engineering through distance learning.

Mr. Deng has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Chen Wenjie (陳文捷)**, aged 46, joined our Group in July 2006. He serves as deputy general manager of production of Eco-Tech and Kewei and deputy chief engineer of Eco-tech and is responsible for assisting the chief engineers in daily production of Eco-Tech and Kewei. Mr. Chen was recognised as engineer by the Bureau of Personnel of Dongguan City (東莞市人事局) in November 1995. He was recognised as intermediate level business administration specialty by the Ministry of Personnel of the PRC (中華人民共和國人事部) (now known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) in November 2005. He was awarded the qualification of computer software programmer by the State Council Office of Promotion and Application of Electronics and Information System in October 1994. He served as deputy manager of the production department of Guangdong Guohong Electric Power Co., Ltd. (廣東國宏電力有限公司) from June 1996 to July 2006. The principal business of Guangdong Guohong Electric Power Co., Ltd. included electricity generation. Mr. Chen graduated from Tsinghua University (清華大學) in July 1990 with a bachelor’s degree in utilisation of nuclear and heat energy.

Mr. Chen has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

**Mr. Chen Jinxi (陳進喜)**, aged 41, joined our Group in May 2006. He serves as the supervisor of Zhanjiang Yuefeng and Canvest Consultancy and deputy general manager of finance of Eco-Tech and Kewei. He is responsible for financial management of Eco-Tech and Kewei. Mr. Chen was recognised as accountant by the Ministry of Personnel (now known as Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)) and the Ministry of Finance of the PRC in May 1997. Mr. Chen worked at Guangdong Guohong Electric Power Co., Ltd. (廣東國宏電力有限公司) as deputy manager of the finance department from November 2000 to May 2006. The principal business of Guangdong Guohong Electric Power Co., Ltd. included electricity generation. Mr. Chen graduated from Hunan University of Technology (湖南工業大學) in July 2013 with a bachelor graduation certificate in financial management through distance learning.

Mr. Chen has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

## **DIRECTORS AND SENIOR MANAGEMENT**

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**Mr. Li Deming** (李德明), aged 49, joined our Group in April 2010. He serves as chief engineer of Eco-Tech and Kewei and is responsible for assisting the chief engineers of our Group in the daily production of Eco-Tech and Kewei. Mr. Li was recognised as thermal mechanical engineer by the Bureau of Personnel of Foshan City (佛山市人事局) in December 1996. Mr. Li served as steam turbine engineer of Guangdong Guohong Electric Power Co., Ltd. (廣東國宏電力有限公司) from May 1998 to May 2005. He served as officer-in-charge of and engineer in machinery maintenance of Guangzhou Veolia ES Likeng Co. Ltd (廣州威立雅固廢能源技術有限公司) from May 2005 to April 2007 and was responsible for the thermal mechanical related technology and production management of Guangzhou Waste-to-energy Plant No. 1 (廣州市第一資源熱力電廠). He served as the thermal mechanical engineer of Guangzhou Environment Protection Investment Group Co., Ltd (廣州環保投資集團有限公司) and was responsible for the thermal mechanical related technology and production management of the branch plant No. 2 of Guangzhou Waste-to-energy Plant No. 1 (廣州市第一資源熱力電廠). The principal business of Guangdong Guohong Electric Power Co., Ltd. included electricity generation. Mr. Li graduated from Changsha Normal College of Water Conservancy and Electric Power (長沙水利電力師範學院) (now known as Changsha University of Science & Technology (長沙理工大學)) in July 1988 with a bachelor’s degree in thermal power engineering.

Mr. Li has not been a director of any publicly listed company during the three years preceding the date of this [Redacted].

### **COMPANY SECRETARY**

Ms. Wong Ling Fong Lisa (王玲芳) has been appointed as our Company Secretary. Please refer to the paragraph headed “Senior management” above for a biography of Ms. Wong.

### **MANAGEMENT PRESENCE IN HONG KONG**

Rule 8.12 of the [Redacted] requires that a new applicant applying for a primary [Redacted] on the [Redacted] must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. At present, three of our executive Directors, namely Ms. Loretta Lee, Mr. KM Lai and Mr. CT Lai, are ordinarily resident in Hong Kong.

### **AUDIT COMMITTEE**

We established an audit committee on [●] 2014 with written terms of reference in compliance with Rule 3.21 of the [Redacted] and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 to the [Redacted]. The primary duties of the Audit Committee include (but without limitation): (i) assisting our Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, (ii) overseeing the audit process and (iii) performing other duties and responsibilities as assigned by our Board. The Audit Committee consists of Mr. Chan Kam Kwan Jason (chairperson), Professor Sha Zhenquan and Mr. Chung Wing Yin.

## **DIRECTORS AND SENIOR MANAGEMENT**

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### **REMUNERATION COMMITTEE**

We established a remuneration committee on [●] 2014 with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the [Redacted]. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to our Directors on our policy and structure for all remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of each executive Director and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme. The Remuneration Committee consists of Professor Sha Zhenquan (chairperson), Mr. Chan Kam Kwan Jason and Mr. Chung Wing Yin.

### **NOMINATION COMMITTEE**

We established a nomination committee on [●] 2014 with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the [Redacted]. The primary duties of the Nomination Committee include, without limitation: (i) reviewing the structure, size and composition of the Board, (ii) assessing the independence of independent non-executive Directors and (iii) making recommendation to the Board on matters relating to the appointment of Directors. The Nomination Committee consists of Mr. Chung Wing Yin (chairperson), Professor Sha Zhenquan and Mr. Chan Kam Kwan Jason.

### **CORPORATE GOVERNANCE COMMITTEE**

We established a corporate governance committee on [●] 2014 with written terms of reference in compliance with paragraph D3 of the Corporate Governance Code as set out in Appendix 14 to the [Redacted]. The primary duties of the corporate governance committee include (but without limitation): (i) reviewing and assessing compliance with internal policies of our Group; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and developing our Company’s policies and practices on corporate governance; and (iv) reviewing our Company’s compliance with Appendix 14 to the [Redacted]. The corporate governance committee consists of four members being Mr. Chan Kam Kwan Jason (chairperson), Ms. Loretta Lee, Professor Sha Zhenquan and Mr. Chung Wing Yin.

### **DIRECTORS’ AND SENIOR MANAGEMENT’S REMUNERATION**

Each of the executive Directors has entered into a service agreement with us commencing from [●] for a maximum period of three years respectively which may be terminated by either party by serving on the other party a prior written notice of not less than a month expiring not earlier than the end of the first financial year after the [Redacted]. Under the service agreements, the executive Directors are entitled to an aggregate annual basic salary of approximately HK\$3,878,000 (or its

## **DIRECTORS AND SENIOR MANAGEMENT**

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equivalent in other currencies). Each of the executive Directors is also entitled to a discretionary bonus as determined by the Remuneration Committee by reference to the performance of our Group. Particulars of the terms of the above contracts are set out in the paragraph headed “Particulars of service agreements” in Appendix VI to this [Redacted].

Our Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our Company’s contribution to the pension schemes on their behalf. We determine the salaries of our Directors based on each Director’s qualification, position and seniority.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) to our Directors for the three years ended 31 December 2013 and six months ended 30 June 2014 were approximately HK\$1.4 million, HK\$2.7 million, HK\$3.5 million and HK\$1.6 million, respectively.

Under the arrangement currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2014 will be approximately HK\$3,476,000.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) to our five highest paid individuals for the three years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2014 were approximately HK\$2.3 million, HK\$4.5 million, HK\$5.2 million and HK\$3.0 million, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the three years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2014. Further, none of our Directors have waived any remuneration during the same period.

For further information on the Share Option Scheme, please refer to the paragraph headed “Share Capital — Share Option Scheme” and the section headed “D. Share Option Scheme” in Appendix VI to this [Redacted].

**DIRECTORS AND SENIOR MANAGEMENT**

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[Redacted]

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**SUBSTANTIAL SHAREHOLDERS**

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As at the date of this application proof, the Company is owned as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of shareholding
Ms. Loretta Lee (note 1)	Founder of discretionary trust	1,152,381	100.0%
Mr. KM Lai (note 1)	Founder of discretionary trust	1,152,381	100.0%
Mr. CT Lai (note 2)	Interest of spouse	1,152,381	100.0%
HSBC International Trustee Limited (note 1)	Trustee	1,152,381	100.0%
VISTA Co (note 4)	Interest of controlled corporation	1,152,381	100.0%
Century Rise (note 3)	Interest of controlled corporation	1,152,381	100.0%
Best Approach	Beneficial owner	1,152,381	100.0%

*Note:*

- (1) Ms. Loretta Lee is the wife of Mr. CT Lai and the cousin-in-law of Mr. KM Lai. The entire issued share capital of Best Approach is directly and indirectly held by VISTA Co, whose entire issued share capital is held by HSBC International Trustee Limited as trustee of the Harvest VISTA Trust, a trust with Mr. KM Lai and Ms. Loretta Lee as founders and established in accordance with the laws of the BVI. The discretionary beneficiaries of the Harvest VISTA Trust include Mr. KM Lai, Ms. Loretta Lee and the personal trust of Ms. Loretta Lee (the beneficiaries of which are Ms. Loretta Lee and her immediate family members).
- (2) Both Ms. Loretta Lee and Mr. CT Lai are Directors. Under the SFO, if a director’s spouse is himself a director or chief executive of [Redacted], the director need not aggregate her interest. As such, in his capacity as a Director, Mr. CT Lai is not required to aggregate the interests of Ms. Loretta Lee. However, Mr. CT Lai is still required to aggregate the interest of Ms. Loretta Lee in determining whether he falls under the definition of “Substantial Shareholder” under the SFO.
- (3) Century Rise holds 45% of the issued share capital of Best Approach. Therefore, Century Rise is deemed or taken to be interested in all our Shares held by Best Approach for the purposes of the SFO.
- (4) VISTA Co holds 55% of the issued share capital of Best Approach and the entire issued share capital of Century Rise. Therefore, VISTA Co is deemed or taken to be interested in all our Shares held by Century Rise and Best Approach for the purposes of the SFO.



## **SUBSTANTIAL SHAREHOLDERS**

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So far as our Directors are aware, immediately following the completion of the [Redacted] and the [Redacted] (assuming that the [Redacted] is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of [Redacted], or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

[Redacted]

**SUBSTANTIAL SHAREHOLDERS**

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[Redacted]

If the [Redacted] is fully exercised, the shareholding held by each of Ms. Loretta Lee, Mr. KM Lai, Mr. CT Lai, HSBC International Trustee Limited, VISTA Co, Century Rise, Best Approach and AEP Green Power, Limited will be approximately [Redacted], respectively.

Except as disclosed in this [Redacted], our Directors are not aware of any person who will, immediately following the completion of the [Redacted] and the [Redacted] (assuming that the [Redacted] is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in any of our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## SHARE CAPITAL

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### SHARE CAPITAL

The following is a description of our authorised share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the [Redacted] and the [Redacted] (without taking into account the exercise of the [Redacted] or any options that may be granted under the Share Option Scheme):

(HK\$)

Authorised share capital:	
5,000,000,000 Shares of HK\$0.01 each	50,000,000.00
Issued share capital:	
1,152,381 Shares in issue as at the date of this [Redacted]	11,523.81
Shares to be issued:	
[Redacted] Shares to be issued pursuant to the [Redacted]	[Redacted]
[Redacted] Shares to be issued pursuant to the [Redacted]	[Redacted]
Total issued Shares on completion of the [Redacted]:	
[Redacted] Shares	[Redacted]

According to Rule 8.08 of the [Redacted], at the time of the [Redacted] and at all times thereafter, we must maintain the [Redacted] of our issued share capital in the [Redacted].

### ASSUMPTIONS

The above table assumes that the [Redacted] becomes unconditional and the issue of Shares pursuant to the [Redacted] and the [Redacted] are made, but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the [Redacted] or pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKING

The [Redacted], including the Shares issuable pursuant to the [Redacted], will rank pari passu in all respects with all other Shares in issue as mentioned in this [Redacted], and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this [Redacted].

## **SHARE CAPITAL**

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### **GENERAL MANDATE TO ISSUE SHARES**

Subject to the [Redacted] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [Redacted] and the [Redacted]; and
- (ii) the aggregate nominal amount of the share capital of our Company repurchased by us (if any) pursuant to the general mandate to repurchase Shares as described below.

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under the section headed “Further information about our Company — Written resolutions of our sole Shareholder passed on [●] 2014” in Appendix VI to this [Redacted].

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the [Redacted] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the [Redacted] and the [Redacted] (excluding any Shares which may be allotted and issued pursuant to the exercise of the [Redacted] or any options which may be granted under the Share Option Scheme).

This mandate relates only to repurchases made on the [Redacted] or any other [Redacted] on which the Shares may be [Redacted] and which is recognised by the [Redacted] and the [Redacted] for this purpose, and which are made in accordance with the [Redacted]. A summary of the relevant [Redacted] is set out in the paragraph headed “Further information about our Company — Repurchase of our Shares by our Company” in Appendix VI to this [Redacted].

## **SHARE CAPITAL**

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This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to repurchase Shares are set forth under the section headed “Further information about our Company — Written resolutions of our sole Shareholder passed on [●] 2014” in Appendix VI to this [Redacted].

### **SHARE OPTION SCHEME**

The Company has conditionally adopted the Share Option Scheme on [●] 2014, the purpose of which is to incentive and reward eligible participants by reason of their contribution or potential contribution to the Company and/or any of our subsidiaries. Please see the section headed “D. Share Option Scheme” in Appendix VI to this [Redacted] for a description of our Share Option Scheme.

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## **FINANCIAL INFORMATION**

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*You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I - Accountant’s Report” to this [Redacted]. The consolidated financial information has been prepared in accordance with HKFRSs.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.*

### **OVERVIEW**

We are a leading pure play waste-to-energy provider focused on the development, management and operation of WTE plants. Our WTE plants had a total daily MSW processing capacity of 3,000 tonnes in 2013 and according to the Euromonitor Report, in terms of daily MSW processing capacity for commercial operating WTE plants in 2013: (i) we were the second largest WTE provider in Guangdong Province and the 11th largest WTE provider in the PRC with a market share of approximately 13.0% and 2.0%, respectively; and (ii) out of all non-State-owned background enterprises, we were the largest WTE provider in Guangdong Province and the fourth largest WTE provider in the PRC.

The WTE market is expected to experience significant growth in the future. According to the Notice of the State Council on Issuing the 12th Five-year Plan for National Environmental Protection (國務院關於印發國家環境保護“十二五”規劃的通知) issued in December 2011, the PRC government estimated there would be a total investment of approximately RMB3.4 trillion in environment protection during the period from 2011 to 2015. According to the National Twelfth Five-Year Plan for Construction of MSW Innocuous Treatment Facilities (“十二五”全國城鎮生活垃圾無害化處理設施建設規劃) issued in April 2012, the PRC government has targeted a total investment of approximately RMB263.6 billion for MSW treatment facilities during the period from 2011 to 2015. Please see the section headed “Regulatory overview — Overview — Macro planning policy for the MSW Treatment industry” for further details. Guangdong Province had the largest MSW innocuous treatment capacity among all PRC provinces as of 2012. According to the Euromonitor Report, Guangdong is expected to have the largest waste incineration capacity among all Chinese provinces in 2015, with its daily waste incineration capacity growing at a CAGR of around 28.7% from 2010 to 2015. Currently, we have three WTE plants, namely the Eco-Tech WTE Plant, the Kewei WTE Plant and the China Scivest WTE Plant, all of which are located in Dongguan, Guangdong Province, the PRC. Our Directors believe we are well-positioned to capture the opportunities and benefits from the future growth of the WTE industry in Guangdong Province.

Our Kewei WTE Plant and China Scivest WTE Plant both possess a daily MSW processing capacity of 1,800 tonnes, while our Eco-Tech WTE Plant will also have a daily MSW processing capacity of 1,800 tonnes after re-commencing trial operation upon the completion of its Technological

## FINANCIAL INFORMATION

Upgrade in the third quarter of 2015. We are in the course of developing the Zhanjiang WTE Plant in Zhanjiang of Guangdong Province pursuant to a BOT concession right. The Zhanjiang WTE Plant will have a daily MSW processing capacity of 1,000 tonnes after the completion of phase one of the Zhanjiang Project in the third quarter of 2015.

Our WTE business basically involves the processing of MSW and selling of electricity. We receive and process MSW from our suppliers which are primarily local governmental bodies and we receive waste treatment fees from MSW suppliers based on the tonnage of MSW delivered. The MSW collected are incinerated in our WTE plants to generate electricity which is then sold to the local power grid companies.

During the Track Record Period, in addition to the on-grid tariffs for the sale of power and waste treatment fees for all our operating WTE plants, we have recorded construction revenue and finance income during the six months ended 30 June 2014 in respect of Zhanjiang WTE Plant which is a BOT project under development. No construction revenue and finance income were recorded for our BOO projects. For further details of our revenue recognition, please refer to the section headed “Financial information — Key factors affecting financial condition and results of operations of our Group — BOO and BOT projects accounting implications” in this [Redacted].

The following table sets out our revenue distribution during the Track Record Period:

	2011		Year ended 31 December			2013		Six months ended 30 June		
	Approx. HK\$'000	%	Approx. HK\$'000	%	Approx. HK\$'000	Approx. HK\$'000	Approx. HK\$'000	Approx. HK\$'000	%	
<b>Power sales</b>										
Eco-Tech*	18,560	12.0	119,307	30.8	120,833	31.0	61,268	31.5	36,243	11.6
Kewei	88,465	57.3	146,100	37.8	140,904	36.1	71,882	37.0	70,189	22.4
China Scivest**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	86,348	27.5
<b>Sub-total</b>	<b>107,025</b>	<b>69.3</b>	<b>265,407</b>	<b>68.6</b>	<b>261,737</b>	<b>67.1</b>	<b>133,150</b>	<b>68.5</b>	<b>192,780</b>	<b>61.5</b>
<b>Waste treatment fees</b>										
Eco-Tech*	7,697	5.0	47,367	12.2	50,954	13.1	23,473	12.1	14,518	4.6
Kewei	39,748	25.7	74,360	19.2	77,482	19.8	37,886	19.4	40,507	12.9
China Scivest**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	50,610	16.2
<b>Sub-total</b>	<b>47,445</b>	<b>30.7</b>	<b>121,727</b>	<b>31.4</b>	<b>128,436</b>	<b>32.9</b>	<b>61,359</b>	<b>31.5</b>	<b>105,635</b>	<b>33.7</b>
<b>Construction revenue relating to service concession arrangement</b>	—	—	—	—	—	—	—	—	14,736	4.7
<b>Finance income relating to service concession arrangement</b>	—	—	—	—	—	—	—	—	119	0.1
<b>Total revenue</b>	<b>154,470</b>	<b>100.0</b>	<b>387,134</b>	<b>100.0</b>	<b>390,173</b>	<b>100.0</b>	<b>194,509</b>	<b>100.0</b>	<b>313,270</b>	<b>100.0</b>

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group’s operations. Please see “History and development — Corporate history of our principal subsidiaries — Eco-Tech” for further details. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

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\*\* China Scivest was acquired and its results were accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

Starting from April 2014, our Eco-Tech WTE Plant has temporarily suspended its operations due to the Technological Upgrade. It is expected that our Eco-Tech WTE Plant will resume trial operation and commercial operation by the third quarter of 2015 and second quarter of 2016, respectively. Since 1 July 2014, our revenue has mainly been generated from the operation of our Kewei WTE Plant and China Scivest WTE Plant.

### **BASIS OF PRESENTATION**

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants (the “[Redacted] Business”). Immediately prior to and after the completion of the Reorganisation, the [Redacted] Business was principally conducted through Eco-Tech and Kewei. Such [Redacted] Business was ultimately controlled by Mr. KM Lai throughout the Track Record Period. Pursuant to the Reorganisation, the [Redacted] Business is transferred to and held by the Company. Accordingly, the consolidated financial information of the Company and the [Redacted] Business is prepared in accordance with HKFRS 10, Consolidated Financial Statements, issued by the HKICPA, using the carrying values of the [Redacted] Business under Mr. KM Lai for all periods presented, or since the respective dates of incorporation/establishment of the subsidiaries within our Group, or since the date when the subsidiaries within our Group first came under the control of the Mr. KM Lai, whichever is later.

### **KEY FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OUR GROUP**

Our Group’s financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

#### **Changes in current favourable government policies and regulations relating to the WTE industry**

We are engaged in an industry where policies and regulations play a critical role in our business. With an increased level of environmental awareness in recent years, the PRC government has been active in encouraging the WTE industry by way of policies and regulations.

We currently benefit from preferential on-grid tariffs, mandatory power purchase and grid connection privilege for power generated from renewable energy resources, and various favourable tax policies for EIT and VAT. For further details, please refer to the section headed “Business — Our competitive strengths — Our WTE plants benefit from favourable renewable energy policies of the PRC government”.

With the increasing focus on environment protection, the PRC government estimated there would be a total investment of approximately RMB3.4 trillion into environmental pollution control over the 12th Five-Year Plan period, of which approximately RMB263.6 billion would be invested in MSW treatment, according to the 12th Five-Year Plan. The plan clearly notes that waste treatment will be



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a focus area of China’s environmental industry over the current five-year period. We believe that this anticipated increase in government investment in MSW treatment will further improve the prospects of our business. In addition, environmental regulatory requirements in China, such as emission standards for our industry, are becoming increasingly stringent. Based on the experience of our Group in this industry and proven track record in operating and Technological Upgrade of WTE plants, we believe we are well positioned to respond to the increasingly stringent environmental protection policies in China.

Any changes in the current favourable government policies and regulations relating to the WTE industry and our abilities to adapt to future changes in policies and regulations could affect our financial condition and results of operations.

### **Access to capital and cost of financing**

Our performance is affected by our ability to access to capital and financing costs. Since our business and operations are capital intensive, we require a significant amount of capital to expand our operations as well as maintain and operate our WTE business. Our projects typically require us to make substantial financial investments during the construction phase, and the cost of operations, repairs and maintenance of the WTE plants during the life of these facilities also require significant financial resources. Usually less than 40% of the total project investment amount is financed by our own funds and the balance of the funding requirement is financed by external sources, such as bank borrowings. We are undertaking both the Technological Upgrade of our Eco-Tech WTE Plant and the development of Zhanjiang WTE Plant simultaneously. Each of these projects requires significant cash outflows in accordance with the progress of the development works. We have secured financings and allocated our internal resources to cater for the expected progress of such projects. However, one or both of these projects may encounter delays or disruptions, and/or cost overruns which may affect our cash flows.

As a result of the required long-term substantial financial investments for our projects, we need to look for external financing sources such as bank borrowings and our access to capital is very important to our operation. The recent global financial crisis caused substantial volatility in the capital markets, which has resulted in reduced liquidity, widening of credit spreads, lack of pricing transparency in credit markets, reduction in available financing and tightening of credit terms. If there are prolonged disruptions to the credit markets in the future, this would limit our ability to borrow funds from our current or future funding sources or cause the access to funds becoming more expensive, in turn delay the construction of our WTE projects and affect our business expansion.

Our cost of financing affects our performance. As of 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, we had outstanding bank borrowings approximately HK\$494.9 million, HK\$471.7 million, HK\$381.6 million and HK\$1,021.0 million, respectively. For the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, our interest expenses amounted to HK\$25.1 million, HK\$31.8 million, HK\$26.8 million and HK\$34.6 million, respectively. During the Track Record Period, we entered into various loan agreements for a significant amount of

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debt, and we expect to continue to borrow significant amounts in the future to finance our projects. Our existing long-term borrowings are at various rates linked to the long-term lending rates published by the PBOC. Any significant increase in the lending rates published by the PBOC may increase the cost of our financing and adversely affect our profits.

The level of our borrowings and our ability to obtain additional external financing on the existing terms, as well as any interest rate fluctuations and other borrowing costs, have had and will continue to have a material effect on our finance costs and, consequently, on our results of operations and financial condition.

### **BOO and BOT projects accounting implications**

We principally use the BOO and BOT project models to provide our services as a waste-to-energy provider. Our Eco-Tech WTE Plant and Kewei WTE Plant are operated on a BOO basis and our China Scivest WTE Plant (which was acquired by us in January 2014) and our Zhanjiang WTE Plant (which is currently under development) are operated on a BOT basis. The mix of BOO and BOT project models will have impact on our revenue and cost recognition and gross profit.

The accounting treatment for a BOO project is different from that of a BOT project. The difference mainly affects the recognition policy and timing of our revenue, costs and profitability. For BOO projects, we may only recognise revenue when waste treatment services are rendered and power is sold during the project operation phase. Costs related to the construction of the WTE plants, including payments to third-party contractors and cost of equipment and components, would be capitalised as fixed assets. Depreciation of the property, plant and equipment would be recognised in the income statement over the estimated useful lives.

Our BOT projects are considered as service concession arrangements under HK (IFRIC) — Int 12 Service Concession Arrangements. As such, we recognise construction revenue and costs relating to service concession arrangement during the construction phase of a BOT project. Construction revenue is estimated by reference to the stage of completion. The stage of completion is the percentage of the construction costs of the project incurred to the total estimated construction costs. Construction revenue comprises the construction costs plus the service markup, with reference to gross margins of similar engineering companies that provide services to energy companies, and assessed by an independent valuation specialist. For the details of the recognition for construction revenue and costs relating to service concession arrangement, please refer to Note 2.20 “Construction contracts” and Note 4.1 “Service concession arrangements” of Section II to the Accountant’s Report set out in Appendix I to this [Redacted].

The construction revenue relating to service concession arrangement may be recognised as gross amounts due from a customer for contract work (to the extent that there are guaranteed payments from the concession grantor under the relevant concession agreement for WTE services), and/or intangible assets (if there is no such guaranteed payments or where the guaranteed payments do not cover the whole of the estimated consideration receivable for the BOT project). For the details of recognition

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for gross amounts due from a customer for contract work and intangible assets, please refer to Note 2.13 “Receivables - (b) Gross amount due from a customer for contract work” and Note 2.7 “Intangible assets - (b) Concession right to build, own and transfer a waste-to-energy plant” of Section II to the Accountant’s Report set out in Appendix I to this [Redacted] respectively.

In addition to the construction revenue, we may also generate finance income on the gross amount due from a customer for contract work. Such finance income is recognised and accrued on the outstanding gross amount due from a customer for contract work using the effective interest method.

Should we undertake more BOT projects in the future, due to the recognition of construction revenue and finance income relating to service concession arrangements, our revenue and cost recognition and gross profit may change significantly from those in our Track Record Period. For a project under development, as the revenue and profit recognition is dependent on the estimation of the final outcome of the construction contract as well as the work incurred as of each balance sheet dates, should the actual results be different from those estimated, this would affect the revenue and profit to be recognised in the future periods.

However, the above accounting treatments do not have any cash flow implications as construction revenue does not generate any cash to fund construction costs during the construction phase. Actual cash inflow will only start when we receive waste treatment fees and on-grid tariffs.

### **Unit price of on-grid tariffs and waste treatment fees**

Our revenue is mainly derived from power sales and provision of waste treatment services, thus our results of operations are affected by on-grid tariffs, waste treatment fees, and changes to the on-grid tariff rates or waste treatment fees per tonne.

The on-grid tariff rates for WTE plants are determined and reviewed by the pricing authorities in China. As such, our business is dependent on the PRC pricing policy for WTE projects as we have no control over the pricing of the electricity. During the Track Record Period, revenue from power sales accounted for approximately 69.3%, 68.6%, 67.1% and 61.5% of our total revenue in the three years ended 31 December 2013 and the period ended 30 June 2014, respectively. For further details of the pricing policy for on-grid tariffs and level of on-grid tariffs applicable to our WTE plants, please refer to the section headed “Business — Business model — Our sources of revenue — On-grid tariffs” in this [Redacted].

In Dongguan, the unit price for waste treatment fees is determined by the Dongguan Price Bureau and the construction (environmental hygiene) administrative authority and is subject to adjustment from time to time, taking into account factors such as costs involved and the ability to make reasonable profits. During the Track Record Period, revenue from waste treatment fees accounted for approximately 30.7%, 31.4%, 32.9% and 33.7% of our total revenue in the three years ended 31 December 2013 and the period ended 30 June 2014, respectively. For further details of pricing policy for waste treatment fees and level of waste treatment fees applicable to our WTE plants, please refer to the section headed “Business — Business model — Our sources of revenue — Waste treatment fees” in this [Redacted].

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Since the pricing of our two main sources of revenue is, to a large extent, set by the PRC government’s laws, regulations and policies, we may not be able to adequately cover any increase in our costs of production, which in turn could materially and adversely affect our business, financial condition and results of operations.

### **Production efficiency of our Group’s WTE plants**

Our Group’s future results of operations will depend on our ability to maintain or increase the efficiency of the plants we operate, while at the same time lower the costs of operating those plants. Our Group seeks to achieve increased efficiency of the WTE plants through maximising fuel economy from MSW, optimising our management efficiency, upgrading equipments, continuing professional development of staff and keeping abreast with the latest development in technology and management.

In order to improve our operational efficiency, our Eco-Tech WTE Plant is currently undertaking its Technological Upgrade, i.e. to upgrade the facilities of our Eco-Tech WTE Plant by replacing the fluidised bed incinerators with moving grate incinerators. We anticipate that after the completion of the Technological Upgrade of our Eco-Tech WTE Plant, it will enjoy the following benefits: (i) power sales to generation ratio will be increased; (ii) power generation capacity factor will be increased; and (iii) daily MSW processing capacity will be increased from 1,200 tonnes to 1,800 tonnes, representing a 50% increment. In addition, compared with fluidised bed incinerators, moving grate incinerators are widely considered to be more cost-efficient. As a comparison, the gross profit margin of our Kewei WTE Plant, which adopted the moving grate technology during the Track Record Period, were higher than that of our Eco-Tech WTE Plant, which adopts the fluidised bed technology. During the suspension of operations of our Eco-Tech WTE Plant for its Technological Upgrade, we will mainly rely on our Kewei WTE Plant and China Scivest WTE Plant (which was acquired by us in January 2014) for revenue and cash generation. In addition to the loss of revenue from our Eco-Tech WTE Plant, we incurred a one-off redundancy payments of HK\$5.2 million related to the Technological Upgrade during the six months ended 30 June 2014. Nonetheless, the suspension does not completely eliminate all the operating costs associated with our Eco-Tech WTE Plant as we have retained certain staff mainly for monitoring its Technological Upgrade. For details of the Technological Upgrade for our Eco-Tech WTE Plant, please refer to the sections headed “Business — Our projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” in this [Redacted].

### **Business expansion**

Our financial performance is significantly affected by the installed capacity of our WTE projects and the number of our projects under operation. As we increase our installed capacity, our potential electricity sales also increase, in turn we will enjoy economies of scale and reduce project-specific risks.

During the Track Record Period, we successfully expanded our WTE business through the acquisition of existing WTE plants and bidding for new WTE projects. Going forward, we intend to further expand our business through either developing our own greenfield projects or pursuing acquisitions. However, there is no assurance that we will identify appropriate targets which will meet our selection criteria. Even if we are able to identify these targets, there is no assurance that we will be successful in acquiring or bidding for the target projects due to various factors, such as unforeseen

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changes in policies and regulations which would affect or even disallow our potential investments or acquisitions, or we may not be able to compete against our competitors in the new markets where we seek business expansion. Such competition may result in the increase in costs or decrease in waste treatment fee which may affect our financial performance in the future.

To successfully implement our business expansion, demand for MSW incineration in China is a key driver. China's large population comprises the very base for the need of MSW treatment. Meanwhile, increasing rate of urbanisation, robust growth in GDP and increasing affluence and consumer spending together increase the need for MSW treatment. However, we cannot assure the growth of demand will sustain in the future. As such, our revenue and financial performance may be affected if the demand for MSW treatment fluctuates over time.

In summary, our business expansion scale would be affected due to various factors such as the availability of new projects, possible competition and demand for MSW incineration. Nonetheless, even if we can secure new projects through competition, if we fail to successfully integrate any acquired businesses or new WTE projects into our existing operations with reference to existing demands, our financial condition and results of operations may still be materially and adversely affected.

### **PRC tax incentives**

#### **Enterprise income tax**

As we operate in and derive our profit from PRC, our results of operations and profitability are affected by changes in tax rates in PRC. Our PRC subsidiaries are subject to enterprise income tax on taxable income as reported in their PRC statutory accounts, as adjusted in accordance with the relevant PRC income tax laws. The current maximum PRC EIT rate chargeable on companies in the PRC is 25%.

Under the relevant PRC tax regulation effective 1 January 2008, WTE projects are listed in the “Catalogue for Enterprise Income Tax Preferences for Environmental Protection and Energy and Water Saving Programs (Trial)” (《環境保護、節能節水項目企業所得稅優惠目錄(試行)》), thus, income derived from an operating WTE plant could enjoy preferential tax concession of full tax exemption for the first three years beginning from the year the project derives its first production and operation revenue, and half tax exemption for the three years thereafter. Our Kewei and China Scivest recorded their first production and operation revenue in 2011 and 2013, respectively.

#### **VAT**

Under the relevant law, after the commencement of commercial operation, our operating WTE plants may be entitled to enjoy the preferential VAT policy of immediate refund upon collection of VAT, provided certain conditions are met. Our Eco-Tech had relevant certificate for VAT refund throughout the Track Record Period, while our Kewei obtained such certificate since 2013, as it only

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commenced commercial operation in 2012, and both of these certificates are subject to renewal before the expiry in December 2014. Our China Scivest has not yet obtained such certificate as it has just commenced its commercial operation in August 2014.

In accordance with the Notice on Adjusting and Improving the VAT Policies for Products and Services Generated from or Related to Comprehensive Utilisation of Resources implemented in 2011, our operating WTE plants can enjoy the exemption from VAT for waste treatment services.

### **Business Tax**

According to the Reply of the State Administration of Taxation on Levying Business Tax on Waste Treatment Fee (國家稅務總局關於垃圾外置費徵收營業稅問題的批覆) (implemented on 30 November 2005) promulgated by the State Administration of Taxation, labour services for waste treatment provided by enterprises or individuals does not fall under the service scope of labour on which business tax should be levied. Therefore, business tax shall not be levied on waste treatment fee.

For further details of our PRC tax incentive, please refer to the section headed “Regulatory overview — tax preferences” in this [Redacted].

If we fail to satisfy the requisite requirements for entitlement to the preferential tax treatments related to EIT and VAT in the future or if there is any change in the existing PRC policy relating to preferential tax treatments applicable to us, we may no longer be entitled to the preferential tax treatments currently enjoyed by us. Any modification or termination of the foregoing tax incentive currently applicable to us and our subsidiaries will affect our financial condition and results of operations.

## **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS**

Our Group has identified below the accounting policies, estimates and judgements that we believe are the most critical to the preparation of its consolidated financial information. For more details of our Group’s accounting policies, please refer to Notes 2 and 4 of Section II of Appendix I to this [Redacted].

### ***Critical accounting policies:***

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for electricity supplied and provision of MSW treatment services and construction service for service concession arrangement, stated net of value added taxes.

Our Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to our Group; and when specific criteria have been met for each of our Group’s activities, as described below.

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(i) *Revenue from power sales*

Revenue arising from sales of power is recognised in the accounting period when electricity is generated and transmitted.

(ii) *Waste treatment fee*

Waste treatment fee is recognised in the accounting period in which the related services are rendered.

(iii) *Construction revenue from service concession arrangement*

Our Group recognises construction revenue relating to service concession arrangement based on the percentage of completion method during the construction period. The stage of completion is measured by reference to the construction costs of the related infrastructure incurred as a percentage of the total estimated construction costs.

(iv) *Finance income*

Finance income is recognised using the effective interest method.

(v) *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

### **Intangible assets**

(a) **Goodwill**

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred and the fair value of the non-controlling interest in the acquiree over to our Group's interest in fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (“CGUs”), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. An impairment loss is recognised for the amount by which the goodwill’s carrying amount exceeds its recoverable amount. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### **(b) Concession right to build, own and transfer a waste-to-energy plant**

Concession right to build, own and transfer (“BOT” arrangement) a WTE plant has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Concession right acquired in a business combination is recognised at fair value at the acquisition date. Costs mainly comprise construction related costs and borrowing costs that are eligible for capitalisation and incurred before the WTE plant is ready for its intended use. When the concession right is ready for its intended use, amortisation is calculated using the straight-line method to allocate the cost of concession right over their estimated useful lives.

### **Gross amount due from a customer for contract work**

Our Group recognises a financial asset arising from a service concession arrangement when it has an unconditional right to receive cash or other financial asset for the construction services provided. Such financial assets are measured at fair value on initial recognition and classified as gross amount due from a customer for contract work. Subsequent to initial recognition, the financial assets are measured at amortised cost using the effective interest method.

### **Construction contracts**

A construction contract is a contract specifically negotiated for the construction of an asset. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

If our Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is initially recognised at the fair value of the consideration.

### **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.



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Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings (comprise mainly factories)	20-25 years
— Plant and machinery	10-15 years
— Motor vehicles	3-5 years
— Office and other equipment	3-5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “other income” in the consolidated income statements.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises all direct costs of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

*Critical accounting estimates and judgements:*

### **Service concession arrangements**

Our Group entered into BOT arrangements in respect of its waste-to-energy projects. Upon expiry of the concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. Revenue relating to construction services under such arrangement is recognised based on percentage of completion. The revenue and profit recognition on an incomplete project is dependent on estimating the final outcome of the construction contract as well as the work incurred at each balance sheet dates. Should the actual results be different from those estimated, this would affect the revenue and profit to be recognised in future periods.

### **Impairment of non-financial assets**

Our Group reviews for impairment of financial assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can

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be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections. Changing the assumptions selected by management in assessing impairment, including the discount rates, electricity tariff, waste treatment fees in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect our Group’s financial condition and results of operations.

### **Estimated useful life of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. Our Group reviews the estimated useful lives of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our Group’s historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### **Current and deferred income tax**

Our Group is subject to taxation in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

### **Purchase accounting**

Accounting for acquisitions require our Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisitions of Worldtron Limited and Swift Ample, our Group has undertaken a process to identify all assets and liabilities acquired, including acquired intangible assets. Judgements made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset’s useful lives, could materially impact the calculation of goodwill and depreciation and amortisation charges in subsequent periods. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of tangible and intangible assets acquired also requires judgement.

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**RESULTS OF OPERATIONS**

The following table sets forth selected items of the consolidated income statements for the periods indicated:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
<b>Revenue</b>	154,470	387,134	390,173	194,509	313,270
Cost of sales	<u>(59,474)</u>	<u>(180,367)</u>	<u>(187,537)</u>	<u>(85,711)</u>	<u>(148,039)</u>
<b>Gross profit</b>	94,996	206,767	202,636	108,798	165,231
General and administrative expenses	(16,878)	(35,147)	(41,739)	(18,976)	(38,513)
Other income	2,585	13,698	14,039	7,479	35,318
Other loss, net	<u>(2,016)</u>	<u>(808)</u>	<u>(725)</u>	<u>(311)</u>	<u>(773)</u>
<b>Operating profit</b>	<u>78,687</u>	<u>184,510</u>	<u>174,211</u>	<u>96,990</u>	<u>161,263</u>
Interest income	85	264	908	427	1,616
Interest expense	<u>(25,105)</u>	<u>(31,839)</u>	<u>(26,769)</u>	<u>(14,002)</u>	<u>(34,597)</u>
Interest expense, net	<u>(25,020)</u>	<u>(31,575)</u>	<u>(25,861)</u>	<u>(13,575)</u>	<u>(32,981)</u>
<b>Profit before income tax</b>	53,667	152,935	148,350	83,415	128,282
Income tax expense	<u>(11,144)</u>	<u>(26,395)</u>	<u>(17,381)</u>	<u>(9,938)</u>	<u>(11,517)</u>
<b>Profit for the year/period</b>	<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>
<b>Attributable to:</b>					
Equity holders of the Company	38,743	126,540	130,969	73,477	115,890
Non-controlling interests	<u>3,780</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>875</u>
	<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED INCOME STATEMENT

#### Revenue

During the Track Record Period, our revenue was mainly generated from our WTE services, for both our BOO and BOT projects, including power sales generated by our WTE plants and waste treatment fees collected from our waste suppliers. We also derived construction revenue and finance income relating to service concession arrangement from the Zhanjiang Project during the six months ended 30 June 2014.

The following table sets forth the revenue generated for each of our WTE plants during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Eco-Tech WTE										
Plant*	26,257	17.0%	166,674	43.1%	171,787	44.0%	84,741	43.6%	50,761	16.2%
Kewei WTE										
Plant	128,213	83.0%	220,460	56.9%	218,386	56.0%	109,768	56.4%	110,696	35.3%
China Scivest										
WTE Plant**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	136,958	43.7%
Zhanjiang WTE										
Plant	—	—	—	—	—	—	—	—	14,855	4.8%
	<u>154,470</u>	<u>100.0%</u>	<u>387,134</u>	<u>100.0%</u>	<u>390,173</u>	<u>100.0%</u>	<u>194,509</u>	<u>100.0%</u>	<u>313,270</u>	<u>100.0%</u>

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group's operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

\*\* China Scivest was acquired and its results were accounted for as part of the Group's results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group's operations.

The following table sets out the breakdown of our revenue by each of our services during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Revenue from										
power sales	107,025	69.3%	265,407	68.6%	261,737	67.1%	133,150	68.5%	192,780	61.5%
Waste treatment										
fees	47,445	30.7%	121,727	31.4%	128,436	32.9%	61,359	31.5%	105,635	33.7%
Construction										
revenue	—	0.0%	—	0.0%	—	0.0%	—	0.0%	14,736	4.7%
Finance income	—	0.0%	—	0.0%	—	0.0%	—	0.0%	119	0.1%
	<u>154,470</u>	<u>100.0%</u>	<u>387,134</u>	<u>100.0%</u>	<u>390,173</u>	<u>100.0%</u>	<u>194,509</u>	<u>100.0%</u>	<u>313,270</u>	<u>100.0%</u>

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**FINANCIAL INFORMATION**

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*Revenue from power sales*

The following table sets out the power sales information for each WTE plant during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
<b>Eco-Tech WTE Plant*</b>					
Power sales revenue (HK\$'000)	18,560	119,307	120,833	61,268	36,243
Power sold (MWh)	30,646	194,984	198,074	101,896	58,638
Average on-grid tariff (HK\$/kWh)***	0.606	0.612	0.610	0.601	0.618
(Average on-grid tariff equivalent to RMB/kWh) (Note)***	0.492	0.496	0.487	0.483	0.489
<b>Kewei WTE Plant</b>					
Power sales revenue (HK\$'000)	88,465	146,100	140,904	71,882	70,189
Power sold (MWh)	123,542	213,445	210,693	106,857	104,154
Average on-grid tariff (HK\$/kWh)***	0.716	0.684	0.669	0.673	0.674
(Average on-grid tariff equivalent to RMB/kWh) (Note)***	0.595	0.555	0.534	0.541	0.533
<b>China Scivest WTE Plant**</b>					
Power sales revenue (HK\$'000)	N/A	N/A	N/A	N/A	86,348
Power sold (MWh)	N/A	N/A	N/A	N/A	129,157
Average on-grid tariff (HK\$/kWh)***	N/A	N/A	N/A	N/A	0.669
(Average on-grid tariff equivalent to RMB/kWh) (Note)***	N/A	N/A	N/A	N/A	0.529
<b>Total</b>					
Power sales revenue (HK\$'000)	107,025	265,407	261,737	133,150	192,780
Power sold (MWh)	154,188	408,429	408,767	208,753	291,949
Average on-grid tariff (HK\$/kWh)	0.694	0.650	0.640	0.638	0.660
(Average on-grid tariff equivalent to RMB/kWh) (Note)	0.574	0.527	0.511	0.513	0.522

## **FINANCIAL INFORMATION**

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*Note:* Average on-grid tariff equivalent to RMB/kWh is calculated by average on-grid tariff (HK\$/kWh) converted to RMB at applicable rates for the respective years/periods.

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 was not presented as part of our Group’s operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

\*\* China Scivest was acquired and its results were accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

\*\*\* Average on-grid tariff is calculated net of VAT. Average on-grid tariff is different in our Eco-Tech WTE Plant and Kewei WTE Plant due to different combination of sales with different on-grid tariffs. Details of different on-grid tariffs please refer to section headed “Business - Business model”.

We mainly sell the power generated from our WTE plants to the local grid company. Our revenue from power sales increased from HK\$107.0 million in 2011 to HK\$261.7 million in 2013, representing a CAGR of 56.4%. The increase was mainly driven by the acquisition of the Eco-Tech WTE Plant in October in 2011 and the improved utilisation rate of our Kewei WTE Plant in 2012 due to gradual improvement in utilisation hours as our Kewei WTE Plant transitioned from trial operation in 2011 to commercial operation in 2012. Our revenue from power sales increased from HK\$133.2 million for the six months ended 30 June 2013 to HK\$192.8 million for the six months ended 30 June 2014, which was mainly attributable to the China Scivest WTE Plant acquired in January 2014 and was partially offset by a reduction of power sales by our Eco-Tech WTE Plant following its suspension for Technological Upgrade in April 2014.

## FINANCIAL INFORMATION

### Waste treatment fees

The following table sets out the waste treatment income information for each WTE plant during the Track Record Period:

	For the year ended			For the	
	2011	2012	2013	six months ended	2014
	31 December			30 June	
<b>Eco-Tech WTE Plant*</b>					
Waste treatment fees (HK\$'000)	7,697	47,367	50,954	23,473	14,518
MSW received (tonnes)	70,271.5	429,796.8	399,067.6	200,740.0	104,422.5
Waste treatment fees per tonne (HK\$/tonne)	109.5	110.2	127.7	116.9	139.0
(Waste treatment fees per tonne equivalent to RMB/tonne) ( <i>Note</i> )	89.0	89.4	101.9	93.9	110.0
<b>Kewei WTE Plant</b>					
Waste treatment fees (HK\$'000)	39,748	74,360	77,482	37,886	40,507
MSW received (tonnes)	377,114.5	676,153.2	614,712.7	329,794.0	290,810.6
Waste treatment fees per tonne (HK\$/tonne)	105.4	110.0	126.0	114.9	139.3
(Waste treatment fees per tonne equivalent to RMB/tonne) ( <i>Note</i> )	87.5	89.2	100.6	92.3	110.2
<b>China Scivest WTE Plant**</b>					
Waste treatment fees	N/A	N/A	N/A	N/A	50,610
MSW received (tonnes)	N/A	N/A	N/A	N/A	363,374.3
Waste treatment fees per tonne (HK\$/tonne)	N/A	N/A	N/A	N/A	139.3
(Waste treatment fees per tonne equivalent to RMB/tonne) ( <i>Note</i> )	N/A	N/A	N/A	N/A	110.2
<b>Total</b>					
Waste treatment fees (HK\$'000)	47,445	121,727	128,436	61,359	105,635
MSW received (tonnes)	447,386.0	1,105,950.0	1,013,780.3	530,534.0	758,607.4
Waste treatment fees per tonne (HK\$/tonne)	106.0	110.1	126.7	115.7	139.2
(Waste treatment fees per tonne equivalent to RMB/tonne) ( <i>Note</i> )	87.8	89.2	101.1	93.0	110.2

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## **FINANCIAL INFORMATION**

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*Note:* Waste treatment fees per tonne equivalent to RMB/tonnes is calculated by average unit price charged (HK\$/tonne) converted to RMB at applicable exchange rates for respective years/periods. Our waste treatment fee for Kewei WTE Plant for the year ended 31 December 2011 was RMB87.5 per tonne. This is due to the government assigned contract with a waste treatment fee of below RMB89 per tonne in 2011.

\* We acquired the controlling interest in Eco-Tech on 17 October 2011; therefore the business operations of our Eco-Tech WTE Plant prior to 17 October 2011 were not presented as part of our Group’s operations. The operations of our Eco-Tech WTE Plant have been suspended for its Technological Upgrade since April 2014.

\*\* China Scivest was acquired and its results were accounted for as part of the Group’s results since 1 January 2014; therefore the business operations of our China Scivest WTE Plant prior to 1 January 2014 was not presented as part of our Group’s operations.

Waste treatment fees increased from HK\$47.4 million in 2011 to HK\$128.4 million in 2013, representing a CAGR of approximately 64.5%. The increase was mainly driven by the increased processing capacity from the acquisition of the Eco-Tech WTE Plant in October 2011 and the improved utilisation rate by our Kewei WTE Plant due to gradual improvement in utilisation hours as our Kewei WTE Plant transitioned from trial operation in 2011 to commercial operation in 2012, as well as increased waste treatment fee per tonne effective from 1 June 2013. The waste treatment fees increased from HK\$61.4 million for the six months ended 30 June 2013 to HK\$105.6 million for the six months ended 30 June 2014, which was mainly driven by the addition of processing capacity after the acquisition of China Scivest WTE Plant in January 2014 and increase in waste treatment fees per tonne in July 2013 which is partially offset by a reduction in waste treatment fee following the suspension of our Eco-Tech WTE Plant for the Technological Upgrade in April 2014.

### **Construction revenue**

We have commenced preparatory construction work such as connecting the site’s access to water, electricity and roads and levelling of the site (三通一平) for our Zhanjiang Project during the six months ended 30 June 2014. We have recognised HK\$14.7 million and HK\$12.3 million as our construction revenue and cost relating to service concession arrangement during the six months ended 30 June 2014 in the manner described in our subsection headed “Key factors affecting financial condition And results of operations of our Group — BOO and BOT projects accounting implications” in this section. The average mark up on the construction costs is approximately 20% based on relevant gross margins of similar engineering companies that provide services to energy companies, assessed by an independent valuation specialist, American Appraisal China Limited.

### **Finance Income**

Finance income recognised during the six months ended 30 June 2014 represented the income generated from the outstanding gross amount due from a customer for contract work using the effective interest method for our Zhanjiang Project. We recognised gross amount due from a customer for contract work arising from the concession arrangement for our Zhanjiang Project as there are guaranteed payments from the concession grantor. For the six months ended 30 June 2014, we recorded HK\$0.1 million of finance income relating to service concession arrangement.



## FINANCIAL INFORMATION

### Cost of sales

The following table sets out the breakdown of our cost of sales by nature during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2011		2012		2013		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Cost of coal	9,147	15.4%	63,261	35.0%	56,209	29.9%	28,795	33.6%	19,460	13.1%
Cost of other fuels	1,488	2.5%	1,341	0.7%	957	0.5%	414	0.4%	452	0.3%
Maintenance cost	3,109	5.2%	14,346	8.0%	13,804	7.4%	4,771	5.6%	8,668	5.9%
Depreciation and amortisation	28,656	48.2%	43,567	24.2%	44,787	23.9%	22,182	25.9%	50,557	34.1%
Employee benefit expenses	9,701	16.3%	29,795	16.5%	31,528	16.8%	15,073	17.6%	24,313	16.4%
Environmental protection expenses	4,381	7.4%	22,781	12.6%	33,000	17.6%	11,512	13.4%	29,459	19.9%
Construction cost	—	0.0%	—	0.0%	—	0.0%	—	0.0%	12,280	8.3%
Others	2,992	5.0%	5,276	3.0%	7,252	3.9%	2,964	3.5%	2,850	2.0%
<b>Total</b>	<u>59,474</u>	<u>100.0%</u>	<u>180,367</u>	<u>100.0%</u>	<u>187,537</u>	<u>100.0%</u>	<u>85,711</u>	<u>100.0%</u>	<u>148,039</u>	<u>100.0%</u>

The following table sets out a breakdown of our cost of sales for each of our WTE plants for the years indicated:

	For the year ended 31 December					For the six months ended 30 June	
	2011	2012	2013	2013	2014		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
	<i>(unaudited)</i>						
Eco-Tech WTE Plant	20,584	128,142	128,883	59,762	46,536		
Kewei WTE Plant	38,890	52,225	58,654	25,949	35,220		
China Scivest WTE Plant	N/A	N/A	N/A	N/A	54,003		
Zhanjiang WTE Plant	—	—	—	—	<u>12,280</u>		
<b>Total</b>	<u>59,474</u>	<u>180,367</u>	<u>187,537</u>	<u>85,711</u>	<u>148,039</u>		

During the Track Record Period, our cost of sales primarily consisted of cost of coal and other fuels, maintenance cost, depreciation and amortisation, employee benefit expenses, environmental protection expenses and construction cost.

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Our cost of coal during the Track Record Period was related to the purchase for coal as an auxiliary fuel for the Eco-Tech WTE Plant. Upon completion of its Technological Upgrade, Eco-Tech WTE Plants will not use coal as an auxiliary fuel due to the change of use of incineration technology. During the Track Record Period, our cost of coal amounted to HK\$9.1 million, HK\$63.3 million, HK\$56.2 million and HK\$19.5 million for each of the three years ended 31 December 2013 and the six months ended 30 June 2014, respectively, which represented approximately 15.4%, 35.0%, 29.9% and 13.1% of our total cost of sales for the same periods, respectively.

Environmental protection expenses mainly represent costs to handle the residues of incineration including fly ash, wastewater and flue gases. We have engaged a service provider to collect solid residues including both fly ash and bottom ash for our Kewei WTE Plant (the “**Relevant Service Provider**”) which is an Independent Third Party. We did not pay any fees to the Relevant Service Provider as it collected both fly ashes and bottom ashes, and bottom ashes can be used as raw materials for the production of certain building materials and hence possess commercial value. Since mid-2011, due to the limited capacity of the Relevant Service Provider, our Kewei WTE Plant had started to engage separate service providers to collect fly ash of Kewei WTE Plant. This together with the general increase in the market price charged by those service providers, and the increase in the production volume as a result of commencement of commercial operation of our Kewei WTE Plant in 2012 and the acquisition of our China Scivest WTE Plant in January 2014, have contributed to the increase in the environmental protection expenses during the Track Record Period.

Construction cost amounted to approximately HK\$12.3 million for the six months ended 30 June 2014 was related to the preparatory construction work of our Zhanjiang WTE Plant.

### Gross profit and gross profit margin

The following table sets out the gross profit and gross profit margin of each of our plant for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2011		2012		2013		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Eco-Tech WTE Plant	5,673	21.6%	38,532	23.1%	42,904	25.0%	24,979	29.5%	4,225	8.3%
Kewei WTE Plant	89,323	69.7%	168,235	76.3%	159,732	73.1%	83,819	76.4%	75,476	68.2%
China Scivest WTE Plant	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	82,955	60.6%
Zhanjiang WTE Plant	—	—	—	—	—	—	—	—	2,575	17.3%
<b>Total</b>	<u>94,996</u>	<u>61.5%</u>	<u>206,767</u>	<u>53.4%</u>	<u>202,636</u>	<u>51.9%</u>	<u>108,798</u>	<u>55.9%</u>	<u>165,231</u>	<u>52.7%</u>

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For each of the three years ended 31 December 2013 and the six months ended 30 June 2014, our gross profit margin was 61.5%, 53.4%, 51.9% and 52.7%, respectively. The significant decrease in our gross profit margin in 2012 compared to 2011 was mainly attributable to the increase in the proportion of revenue from our Eco-Tech WTE Plant in 2012, which generally contributed a lower gross profit margin as it used coal as an auxiliary fuel source for its incineration process, and required more staff to operate before its Technological Upgrade.

### General and administrative expenses

The following table sets out the breakdown of our general and administrative expenses during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2011		2012		2013		2013		2014	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>									
Employee benefit expenses	4,338	25.7%	10,004	28.5%	13,796	33.1%	5,510	29.0%	12,443	32.3%
Promotion, entertainment and travelling expenses	7,687	45.5%	6,656	18.9%	10,504	25.2%	6,002	31.6%	5,992	15.6%
Depreciation	308	1.8%	637	1.8%	1,139	2.7%	506	2.7%	2,065	5.4%
Rental expenses	144	0.9%	2,238	6.4%	3,476	8.3%	1,216	6.4%	1,759	4.6%
Provision of impairment on trade receivables	—	0.0%	4,072	11.6%	—	0.0%	—	0.0%	—	0.0%
Stamp duty and other taxes	235	1.4%	2,082	5.9%	2,094	5.0%	498	2.6%	2,213	5.7%
[Redacted] expenses	—	0.0%	—	0.0%	3,155	7.6%	2,213	11.7%	7,909	20.5%
Legal and professional fees	782	4.6%	1,376	3.9%	882	2.1%	366	1.9%	1,278	3.3%
Security costs	326	1.9%	962	2.7%	1,289	3.1%	679	3.6%	715	1.9%
Office expenses	377	2.2%	637	1.8%	1,757	4.2%	406	2.1%	401	1.0%
Others	2,681	16.0%	6,483	18.5%	3,647	8.7%	1,580	8.4%	3,738	9.7%
<b>Total</b>	<b>16,878</b>	<b>100.0%</b>	<b>35,147</b>	<b>100.0%</b>	<b>41,739</b>	<b>100.0%</b>	<b>18,976</b>	<b>100.0%</b>	<b>38,513</b>	<b>100.0%</b>

Our general and administrative expenses mainly comprise employee benefit expenses for administrative personnel, promotion, entertainment and travelling expenses, depreciation and amortisation, rental expenses for offices, provision for impairment of our trade receivables, office expenses, security expenses, [Redacted] expenses and others. The increase of general and administrative expenses during the Track Record Period was consistent with the increase in scale of operation during the period. For each of the three years ended 31 December 2013 and the six months ended 30 June 2014, we incurred administrative expenses of HK\$16.9 million, HK\$35.1 million, HK\$41.7 million and HK\$38.5 million, respectively, representing approximately 10.9%, 9.1%, 10.7% and 12.3% of our total revenue, respectively.

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**FINANCIAL INFORMATION**

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**Other income**

The following table sets out the breakdown of our other income during the periods indicated:

	For the year ended 31			For the six	
	December			months ended	
	2011	2012	2013	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
VAT refund	1,364	7,782	9,041	4,852	33,571
Government grants	231	1,978	733	395	7
Sales of residues	649	1,516	1,669	874	1,035
Others	<u>341</u>	<u>2,422</u>	<u>2,596</u>	<u>1,358</u>	<u>705</u>
<b>Total</b>	<u><u>2,585</u></u>	<u><u>13,698</u></u>	<u><u>14,039</u></u>	<u><u>7,479</u></u>	<u><u>35,318</u></u>

Other income mainly consisted of VAT refund, government grants and others. For the details of VAT preferential policies, please refer to the section headed “Regulatory overview — Tax preferences — Value-added tax (“VAT”)”. According to the relevant VAT preferential policies, tax payers could enjoy VAT refund after obtaining the Accreditation Certificate of Comprehensive Utilisation of Resources after commencement of commercial operation. Our Eco-Tech had such certificate throughout the Track Record Period, while our Kewei obtained such certificate in 2013 as it only commenced commercial operation in November 2012 and the relevant claims was received in 2014. We recognised VAT refund when there is reasonable assurance that the VAT refund will be received from the government. As we claimed and received the full amount of the VAT refund for 2013 for Kewei during the six months ended 30 June 2014, we recorded a substantial increase in VAT refund during that period. Government grants mainly represented amounts received from PRC government as subsidies for our operations of WTE projects during the Track Record Period. Sales of residues mainly represent sales of bottom ash and scrap metals. Others mainly represented reversal of long outstanding other payables and compensations received for substandard parts from suppliers during the Track Record Period.

**Other loss, net**

Our other net loss during the Track Record Period mainly represented the exchange gain and loss. For the six months ended 30 June 2014, we also recorded a one-off loss on disposal of property, plant and equipment amounted approximately HK\$9.9 million related to the Technological Upgrade for our Eco-Tech WTE Plant and a reversal of provision of HK\$7.2 million was recorded as the actual payment related to the delay in obtaining land and construction-related certificates and permits for the Eco-Tech WTE Plant was less than the original provision made prior to the Group’s acquisition. For details, please refer to “Business — Legal compliance and proceedings — Historical non-compliance incidents”.

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### Interest expense, net

Our net interest expense mainly consisted of interest expenses on borrowings from banks, net of interest income from bank deposits. For each of the three years ended 31 December 2013 and the six months ended 30 June 2014, we incurred net interest expense of HK\$25.0 million, HK\$31.6 million, HK\$25.9 million and HK\$33.0 million, respectively.

### Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) *Cayman Island/BVI profits tax*

Our Group has not been subject to any taxation in the Cayman Island/BVI.

(ii) *Hong Kong profits tax*

No Hong Kong profits tax has been provided for as our Group did not have any assessable profit in Hong Kong for the years/periods during the Track Record Period.

(iii) *PRC enterprise income tax*

Our PRC subsidiaries are subject to a tax rate of 25% for each of the three years ended 31 December 2013 and the six months ended 30 June 2013 and 2014 on the assessable profits arising in or derived from the PRC except the followings:

- i) Kewei obtained an approval for an EIT tax incentive that it was fully exempted from the PRC enterprise income tax for three years starting from 2011 to 2013 followed by a 50% tax reduction for the ensuing three years from 2014 to 2016. Accordingly, the applicable tax rate for Kewei was 0% for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and was 12.5% for the six months ended 30 June 2014.
- ii) China Scivest obtained an approval for an EIT tax incentive that its project would be fully exempted from the PRC enterprise income tax for three years starting from 2013 to 2015, followed by a 50% tax exemption for the ensuing three years from 2016 to 2018. Accordingly, the applicable tax rate of China Scivest was 0% for the six months ended 30 June 2014.

(iv) *PRC withholding income tax*

Dividends declared by the PRC subsidiaries to parent companies incorporated outside PRC are subject to withholding tax of 10%. Withholding tax of our Group has been provided at a rate of 10% during the Track Record Period.

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## FINANCIAL INFORMATION

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### REVIEW OF HISTORICAL RESULTS OF OPERATION

*Six months ended 30 June 2014 compared to six months ended 30 June 2013*

#### *Revenue*

Our revenue increased by HK\$118.8 million or 61.1% from HK\$194.5 million for the six months ended 30 June 2013 to HK\$313.3 million for the six months ended 30 June 2014. Such increase was primarily due to (i) the acquisition of China Scivest in January 2014; (ii) the construction revenue relating to service concession arrangement recognised for the Zhanjiang Project; and was partially offset by the decrease in revenue attributable to our Eco-Tech after its suspension for the Technological Upgrade in April 2014.

#### *Cost of sales*

Our cost of sales increased by HK\$62.3 million or 72.7% from HK\$85.7 million for the six months ended 30 June 2013 to HK\$148.0 million for the six months ended 30 June 2014. The increase was mainly due to (i) the increase in depreciation and amortisation of HK\$28.4 million, which was mainly resulting from the amortisation of the BOT concession right of our China Scivest, which was acquired in January 2014; (ii) the increase in environmental protection expenses by HK\$17.9 million (see “Description of selected items in the consolidated income statement — Cost of sales” above in this section for details) and (iii) construction cost of HK\$12.3 million arising from the preparatory construction work carried out for our Zhanjiang Project since March 2014.

#### *Gross profit and gross profit margin*

Our gross profit increased from HK\$108.8 million for the six months ended 30 June 2013 to HK\$165.2 million for the six months ended 30 June 2014, and our gross profit margin decreased from 55.9% for the six months ended 30 June 2013 to 52.7% for the six months ended 30 June 2014. The decrease in gross profit margin was mainly attributable to (i) the low profit margin of our Zhanjiang Project as it only recognises construction and finance income during the six months ended 30 June 2014; and (ii) the increase in the environmental protection costs incurred as explained above.

#### *General and administrative expenses*

Our general and administrative expenses increased by HK\$19.5 million or 103.0% from HK\$19.0 million for the six months ended 30 June 2013 to HK\$38.5 million for the six months ended 30 June 2014. Such increase was mainly due to: (i) the rise in employee benefit expenses by HK\$6.9 million, or 125.8%, primarily resulting from the acquisition of China Scivest and our business expansion. Our average number of headcount of administrative staff increased from 45 to 78 for the six months ended 30 June 2013 and 2014, respectively and (ii) rise in [Redacted] expenses of approximately HK\$5.7 million incurred during the six months ended 30 June 2014.

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### ***Other income***

Our other income increased by HK\$27.8 million from HK\$7.5 million for the six months ended 30 June 2013 to HK\$35.3 million for the six months ended 30 June 2014, which was mainly due to the receipt of the entire 2013's VAT refund by our Kewei during the six months ended 30 June 2014. Our Kewei was not entitled to VAT refund prior to 2013 as it only received the relevant certificate in 2013.

### ***Other loss, net***

Our other net loss increased by HK\$0.5 million for the six months ended 30 June 2014 as compared to the previous period, primarily due to the loss on disposal of fixed assets of our Eco-Tech of HK\$9.9 million as a result of its Technological Upgrade, which was partially offset by a reversal of provision of HK\$7.2 million recorded as the actual payment related to the delay in obtaining land and construction-related certificates and permits for the Eco-Tech WTE Plant was less than the original provision made in 2011 prior to the Group's acquisition of Eco-Tech. For details, please refer to “Business — Legal compliance and proceedings — Historical non-compliance incidents”. Others mainly represent the income from sales of certain waste residues.

### ***Interest expense, net***

Our net interest expense increased by HK\$19.4 million, from HK\$13.6 million for the six months ended 30 June 2013 to HK\$33.0 million for the six months ended 30 June 2014. Such increase was mainly due to the increase in the average bank borrowing balance by HK\$465.4 million arising from the consolidation of the interest expenses of China Scivest during the six months ended 30 June 2014. Such bank borrowings was obtained for its previous Technological Upgrade.

### ***Income tax expense***

Our income tax expense increased by HK\$1.6 million, from HK\$9.9 million for the six months ended 30 June 2013 to HK\$11.5 million for the six months ended 30 June 2014, mainly due to the increase in our profit before income tax for the six months ended 30 June 2014. The effective income tax rate was 11.9% and 9.0% for the six months ended 30 June 2013 and 2014. Such decrease was mainly due to the fact that China Scivest has commenced to contribute profit before income tax for the six months ended 30 June 2014 but is exempted from enterprise income tax.

### ***Profit for the period***

As a result of the foregoing, our Group recorded net profit of HK\$73.5 million and HK\$116.8 million for the six months ended 30 June 2013 and 30 June 2014, respectively, representing an increase of HK\$43.3 million or 58.9%.

### ***Year ended 31 December 2013 compared to year ended 31 December 2012***

#### ***Revenue***

Our revenue increased by HK\$3.1 million or 0.8% from HK\$387.1 million for the year ended 31 December 2012 to HK\$390.2 million for the year ended 31 December 2013. Such increase was

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## **FINANCIAL INFORMATION**

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primarily due to the increase in waste treatment fees per tonne in June 2013 due to the adjustment determined by the Dongguan Price Bureau, which was partially offset by the decrease in the on-grid tariff rate of our Kewei as a result of on-grid tariff adjustment by the relevant authorities. For details of pricing adjustments for waste treatment fees per tonne and on-grid tariff rate in 2013, please refer to the sections headed “Business — Business model — Our sources of revenue — Waste treatment fees” and “Business — Business model — Our sources of revenue — On-grid tariffs” respectively in this [Redacted].

### ***Cost of sales***

Our cost of sales increased by HK\$7.1 million or 3.9% from HK\$180.4 million in 2012 to HK\$187.5 million in 2013. The increase is mainly due to the increased environmental protection expenses by HK\$10.2 million. For further details please refer to “Description of selected items in the consolidated income statement — Cost of sales” above in this section. Such increase was partially offset by the decrease in cost of coal of HK\$7.1 million, which was primarily a result of the drop in coal price in 2013.

### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit and our gross profit margin remained relatively stable in 2012 to 2013.

### ***General and administrative expenses***

Our general and administrative expenses increased by HK\$6.6 million or 18.8% from HK\$35.1 million in 2012 to HK\$41.7 million in 2013. Such increase was mainly due to: (i) the increase in employee benefit expenses of HK\$3.8 million or 37.9%, was primarily resulting from the payment of bonus in 2013 to recognise the effort of our staff, and the addition of management staff as a result of our business expansion; (ii) the increase in promotion, entertainment and travelling expenses of HK\$3.8 million was primarily related to our Zhanjiang Project; (iii) the [Redacted] expenses of HK\$3.2 million incurred in 2013, which was partially offset by the decrease in provision for impairment of trade receivables of approximately HK\$4.1 million in 2013.

### ***Other income***

Our other income remained relatively stable at HK\$13.7 million and HK\$14.0 million in 2012 and 2013 respectively.

### ***Other loss, net***

Our other net loss remained relatively stable at HK\$0.8 million and HK\$0.7 million in 2012 and 2013 respectively.



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## **FINANCIAL INFORMATION**

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### ***Interest expense, net***

Our net interest expense decreased by HK\$5.7 million or 18.0% from HK\$31.6 million in 2012 to HK\$25.9 million in 2013. Such decrease was mainly due to the decrease in average bank borrowings resulting from the repayment of bank borrowings in 2013.

### ***Income tax expense***

Our income tax expense decreased from HK\$26.4 million in 2012 to HK\$17.4 million in 2013. Our effective tax rate decreased by 5.6% from 17.3% in 2012 to 11.7% in 2013. Such decrease was mainly attributable to the decrease in the provision of deferred taxation arising from withholding tax on profits of subsidiaries in the PRC in 2013 as profits of PRC subsidiaries are reserved for future development.

### ***Profit for the year***

As a result of the foregoing, our Group recorded net profit for the year of HK\$126.5 million and HK\$131.0 million for the year ended 31 December 2012 and 2013, respectively.

## **YEAR ENDED 31 DECEMBER 2012 COMPARED TO YEAR ENDED 31 DECEMBER 2011**

### ***Revenue***

Our revenue increased by HK\$232.7 million or 150.7% from HK\$154.4 million in 2011 to HK\$387.1 million in 2012. Such increase was primarily due to (i) the acquisition of Eco-Tech in October 2011, and (ii) the increase in the utilisation rate of our Kewei WTE Plant from 51.9% in 2011 to 97.4% in 2012, which was due to the gradual improvement in utilisation hours as our Kewei WTE Plant transited from trial operation in 2011 to commercial operation in 2012.

### ***Cost of sales***

Our cost of sales increased by HK\$120.9 million or 203.2% from HK\$59.5 million in 2011 to HK\$180.4 million in 2012. The increase was mainly due to the full year operating result of Eco-Tech being consolidated after the acquisition of our Eco-Tech in October 2011.

### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit increased from HK\$95.0 million in 2011 to HK\$206.8 million in 2012. However, our overall gross profit margin decreased from 61.5% in 2011 to 53.4% in 2012, which was mainly attributable to an increase in the proportion of revenue from our Eco-Tech. Eco-Tech generally had a lower gross profit margin as it used coal for its auxiliary fuel and required more staff to operate before its Technological Upgrade. This was partially offset by the increased gross profit margin resulted from the improved utilisation rate of our Kewei WTE Plant.

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### ***General and administrative expenses***

Our general and administrative expenses increased by HK\$18.2 million or 107.7% from HK\$16.9 million in 2011 to HK\$35.1 million in 2012. Such increase was mainly due to (i) the increase in employee benefit expenses of HK\$5.7 million, which was primarily due to the full year operating result being consolidated after the acquisition of our Eco-Tech in October 2011; (ii) the provision of impairment of trade receivables of HK\$4.1 million in 2012 relating to waste treatment fees of a customer. We are still negotiating the settlement with this customer and such provision was made due to the irregularity in payment pattern and uncertainty in the timing of the collection of such amount; and (iii) the increase in rental expenses of HK\$2.1 million which was mainly related to the rental for our HK office since 2012.

### ***Other income***

Our other income increased by HK\$11.1 million from HK\$2.6 million to HK\$13.7 million. Such increase was mainly attributable to (i) the increase in VAT refund of HK\$6.4 million as a result of the full year operating result being consolidated after the acquisition of our Eco-Tech in October 2011; and (ii) the increase in waste residue income of HK\$0.9 million which was in line with our increased amount of MSW received in 2012 since our Kewei WTE Plant translated from trial operation to commercial operation in 2012.

### ***Other loss, net***

Our net other loss decreased from HK\$2.0 million in 2011 to HK\$0.8 million in 2012. This was mainly due to the decrease in exchange loss arising from the depreciation of HK\$ against RMB in 2012.

### ***Interest expense, net***

Our net interest expense increased by HK\$6.6 million or 26.4% from HK\$25.0 million in 2011 to HK\$31.6 million in 2012. Such increase was mainly due to the increase in interest expense incurred by Eco-Tech as a result of the full year interest expense being consolidated after the acquisition of our Eco-Tech in October 2011, notwithstanding repayment of certain bank borrowings in 2012.

### ***Income tax expense***

Our income tax expense increased from HK\$11.1 million in 2011 to HK\$26.4 million in 2012. Our effective income tax rate decreased from 20.7% in 2011 to 17.3% in 2012, which was mainly attributable to more profit being generated by our Kewei in 2012 due to gradual improvement in utilisation hours as our Kewei WTE Plant transisted from trial operation to commercial operation in 2012. In 2012, our Kewei enjoyed preferential tax treatment by being exempted from enterprise income tax.

### ***Profit for the year***

As a result of the foregoing, our Group recorded net profit for the year of HK\$42.5 million and HK\$126.5 million in 2011 and 2012 respectively.

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**FINANCIAL INFORMATION**

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**LIQUIDITY AND CAPITAL RESOURCES**

Our operations are capital intensive, and our primary uses of cash are for the payment of purchases from suppliers, staff costs, various operating expenses and capital expenditure and have been funded through a combination of cash generated from our operations, bank borrowings, advance from shareholders and investment proceeds from [Redacted].

The table below sets out a summary of our net cash flow for the years/periods indicated during the Track Record Period:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Net cash generated from operating activities	76,213	204,051	220,726	86,075	149,774
Net cash used in investing activities	(95,794)	(49,695)	(209,097)	(178,041)	(93,838)
Net cash generated from/(used in) financing activities	<u>37,615</u>	<u>(165,984)</u>	<u>(7,958)</u>	<u>167,121</u>	<u>289,356</u>
Net increase/(decrease) in cash and cash equivalents	18,034	(11,628)	3,671	75,155	345,292
Cash and cash equivalents at beginning of year/period	37,262	56,298	44,680	44,680	49,803
Currency translation differences	<u>1,002</u>	<u>10</u>	<u>1,452</u>	<u>2,147</u>	<u>(1,239)</u>
Cash and cash equivalents at end of year/period	<u><u>56,298</u></u>	<u><u>44,680</u></u>	<u><u>49,803</u></u>	<u><u>121,982</u></u>	<u><u>393,856</u></u>

**Operating activities**

For the six months ended 30 June 2014, our Group had net cash generated from operating activities of HK\$149.8 million, mainly as a result of the profit before income tax of approximately HK\$128.3 million, which was primarily adjusted for (i) the amortisation of intangible assets of HK\$32.7 million; (ii) depreciation of property, plant and equipment of approximately HK\$17.9 million for our plant and equipment; (iii) interest expense of HK\$34.6 million incurred for the bank borrowings for the six months ended 30 June 2014; and (iv) the decrease in trade and other receivables of HK\$22.3 million mainly arising from more efficient in trade receivables collection. This was partially offset by (i) the decrease in trade and other payables of HK\$67.9 million mainly resulting from the decrease in the purchase of coal after suspension of operations of our Eco-Tech WTE Plant for its Technological Upgrade; and (ii) the adjustment for our construction revenue of HK\$14.7 million.

## **FINANCIAL INFORMATION**

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For the year ended 31 December 2013, our Group had net cash generated from operating activities of HK\$220.7 million, mainly as a result of the profit before income tax of HK\$148.4 million generated in this year, which was primarily adjusted for (i) depreciation of property, plant and equipment of HK\$42.1 million for our plant and machineries; and (ii) interest expense of HK\$26.8 million incurred for the bank borrowings; and (iii) the decrease in trade and other receivables of HK\$21.6 million as a result of more efficient in settlement of trade receivables due to the improved internal payment approval processes undertaken by the local government entities in 2013.

For the year ended 31 December 2012, our Group had net cash generated from operating activities of HK\$204.1 million, mainly as a result of the profit before income tax of HK\$152.9 million generated in this year, which was primarily adjusted for (i) depreciation of property, plant and equipment of HK\$40.4 million for our plant and machineries; and (ii) interest expense of HK\$31.8 million incurred for the bank borrowings. This was partially offset by the increase in trade and other receivables of HK\$29.1 million as a result of increased amount of MSW received in 2012 as Kewei WTE Plant commenced commercial operation in 2012.

For the year ended 31 December 2011, our Group had net cash generated from operating activities of HK\$76.2 million, mainly as a result of the profit before income tax of HK\$53.7 million generated in this year, which was primarily adjusted for (i) depreciation of property, plant and equipment of HK\$28.3 million for our plant and machineries; and (ii) interest expense of HK\$25.1 million mainly due to the increase in borrowings in 2011. This was partially offset by the increase in trade and other receivables of HK\$31.9 million as Kewei WTE Plant commenced trial operation in 2011.

### ***Investing activities***

For the six months ended 30 June 2014, we had net cash outflow from investing activities of HK\$93.8 million, mainly due to (i) payment for the acquisition of China Scivest of HK\$113.2 million (net of cash acquired); and (ii) the payment of HK\$29.7 million for the capital expenditure of the Technological Upgrade for our Eco-Tech WTE Plant. This was partially offset by proceeds of HK\$44.5 million from the disposal of available-for-sale financial assets.

For the year ended 31 December 2013, we had net cash outflow from investing activities of HK\$209.1 million, mainly due to (i) allocation of cash balances to short term time deposit of HK\$125.3 million; (ii) the increase in available-for-sale financial assets of HK\$45.1 million for the investment in money market fund in 2013; and (iii) the payment of HK\$33.5 million for the capital expenditure of our Group.

For the year ended 31 December 2012, we had net cash outflow from investing activities of HK\$49.7 million, mainly due to the settlement of payables related to acquisition of Eco-Tech of HK\$15.8 million and payments of property, plant and equipment of HK\$34.1 million mainly for our WTE plants.

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For the year ended 31 December 2011, we had net cash outflow from investing activities of approximately HK\$95.8 million, mainly due to settlement of payable related to the construction and payments of equipment of our Kewei WTE Plant of HK\$121.9 million and was partially offset by the cash balance of HK\$26.0 million consolidated from the acquisition of Eco-Tech.

### ***Financing activities***

For the six months ended 30 June 2014, we had net cash generated from financing activities of HK\$289.4 million, mainly due to (i) fund from the [Redacted] of HK\$344.5 million; and (ii) the decrease in amounts due from Mr. KM Lai of HK\$86.1 million after settlement received during the period. This was partially offset by the repayment of borrowings of HK\$106.7 million and payments of interest expenses of HK\$34.6 million.

For the year ended 31 December 2013, we had net cash outflow from financing activities of HK\$8.0 million, mainly due to the repayment of borrowings of HK\$103.3 million and payment of interest expenses of HK\$26.8 million, which was partially offset by (i) the net repayment from Mr. KM Lai of HK\$37.6 million; and (ii) the capital injection from High Point of HK\$84.5 million into Zhanjiang Yuefeng.

For the year ended 31 December 2012, we had net cash outflow from financing activities of HK\$166.0 million, mainly due to the settlement of payables of HK\$106.8 million related to the acquisition of non-controlling interests of Eco-Tech and Kewei, payment of interest expenses of HK\$31.8 million and repayment of borrowings of approximately HK\$23.1 million.

For the year ended 31 December 2011, we had net cash inflow from financing activities of HK\$37.6 million, mainly due to proceeds from the borrowings of HK\$84.3 million mainly related to the construction of our Kewei WTE Plant, which was partially offset by repayment of borrowings of HK\$24.7 million and payment of interest expenses of HK\$25.1 million.

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### Net current (liabilities)/assets

The table below sets out selected information for our current assets and current liabilities as at the respective dates:

	As at 31 December			As at	As at
	2011	2012	2013	30 June	31 July
	HK\$'000	HK\$'000	HK\$'000	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Current assets</b>					
Inventories	2,420	2,532	1,579	272	328
Trade receivables	63,009	78,770	68,273	78,648	86,365
Deposits, prepayments and other receivables	8,498	13,300	90,081	26,255	22,328
Available-for-sale financial assets	—	—	45,991	—	—
Income tax recoverable	—	—	—	1,207	1,204
Restricted deposits	—	—	6,360	6,299	6,283
Short-term bank deposits	—	—	127,189	125,976	125,659
Cash and cash equivalents	<u>56,298</u>	<u>44,680</u>	<u>49,803</u>	<u>393,856</u>	<u>359,921</u>
	<u>130,225</u>	<u>139,282</u>	<u>389,276</u>	<u>632,513</u>	<u>602,088</u>
<b>Current liabilities</b>					
Trade and other payables	387,298	243,248	63,562	132,718	115,756
Borrowings	95,596	147,993	87,760	178,886	154,561
Current income tax liabilities	<u>3,556</u>	<u>1,540</u>	<u>3,012</u>	<u>7,695</u>	<u>1,756</u>
	<u>486,450</u>	<u>392,781</u>	<u>154,334</u>	<u>319,299</u>	<u>272,073</u>
<b>Net current (liabilities)/assets</b>	<u>(356,225)</u>	<u>(253,499)</u>	<u>234,942</u>	<u>313,214</u>	<u>330,015</u>

We recorded net current liabilities of HK\$356.2 million, HK\$253.5 million, net current assets of HK\$234.9 million and HK\$313.2 million as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively. To support our expansion during the Track Record Period, we have primarily relied on bank borrowings and advance from our shareholder to fund our capital requirements and thus recorded net current liabilities in 2011 and 2012. We recorded net current liabilities of HK\$356.2 million and HK\$253.5 million as at 31 December 2011 and 2012, respectively, which mainly reflected (i) the advances paid by Mr. KM Lai primarily for the acquisition of Eco-Tech; and (ii) the current portion of our bank borrowings principally for our capital expenditure.

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Our Group’s net current liabilities decreased from HK\$356.2 million as at 31 December 2011 to HK\$253.5 million as at 31 December 2012 which was primarily attributable to the net profit generated for the year ended 31 December 2012. The decrease was partially offset by the increase in the current portion of bank borrowings of HK\$52.4 million, which was primarily resulting from the increase in the portion of term loans due for repayment within one year according to the repayment schedules for the bank borrowings in 2012.

We recorded net current assets of HK\$234.9 million as at 31 December 2013 and net current liabilities of HK\$253.5 million as at 31 December 2012. The change from net current liabilities to net current assets was primarily due to the net profit generated for the year ended 31 December 2013, deemed capital contribution from Mr. KM Lai by waiving the amount due to Mr. KM Lai of HK\$297.4 million, and the capital injection from High Point of HK\$84.5 million to Zhanjiang Yuefeng in 2013.

Our net current assets increased from HK\$234.9 million as at 31 December 2013 to HK\$313.2 million as at 30 June 2014. The increase was primarily due to the investment proceeds received from the [Redacted] during the six months ended 30 June 2014 and the net profit generated for the six months ended 30 June 2014, which was partially offset by the acquisition of China Scivest which was in net current liabilities position at the time of acquisition.

Our net current assets further increased from HK\$313.2 million as at 30 June 2014 to HK\$330.0 million as at 31 July 2014 mainly due to the increase in net profit generated during the period, drawdown of a long term bank borrowing of HK\$35.2 million for capital expenditure of Technological Upgrade of our Eco-Tech WTE Plant, which was partially offset by repayment of certain bank borrowings.

### **WORKING CAPITAL**

We will finance our future capital expenditure and working capital requirements mainly by borrowings, fund from the proceeds from [Redacted], proceeds from this [Redacted], cash from operating activities and other existing resources.

Taking into account our internal resources, our cash flow from operations, available banking facilities and the [Redacted] available to us from the [Redacted], our Directors are of the opinion that the working capital available to our Group is sufficient for at least the next 12 months from the date of this [Redacted].

### **DISCUSSION OF CERTAIN BALANCE SHEET ITEMS**

#### **Intangible assets**

Our intangible assets comprise of goodwill in business combinations and the concession rights derived from our BOT projects.

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The following table sets forth a summary of our net book values of intangible assets as of the dates indicated:

	<b>For the year ended 31 December</b>			<b>For the six</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>months ended</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>30 June 2014</b>
				<i>HK\$'000</i>
Goodwill	175,427	175,394	180,886	179,161
Concession rights	<u>—</u>	<u>—</u>	<u>—</u>	<u>991,460</u>
Total intangible assets	<u>175,427</u>	<u>175,394</u>	<u>180,886</u>	<u>1,170,621</u>

Goodwill was mainly attributable to the acquisition of Eco-Tech in 2011. The goodwill arising from the acquisition of Eco-Tech is attributable to a number of elements, including the buyer’s specific synergies and the economies of scale expected from combining the operations of Kewei and Eco-Tech, as the two waste-to-energy power plants were located adjacent to each other. A purchase price allocation analysis was performed to determine goodwill in relation to the acquisition, with assistance from an independent valuation specialist. Goodwill is the residual of enterprise value implied by the transaction price less the fair value of the project which had taken into account of the expected Technological Upgrade for the Eco-Tech WTE Plant in 2014. Therefore, no impairment of goodwill was required even if Eco-Tech WTE Plant suspended operation for Technological Upgrade since April 2014. For further details of the impairment review of the goodwill, please refer to Note 17 “Intangible assets” of Section II to the Accountants’ Report set out in Appendix I to this [Redacted].

Concession rights amounted to HK\$991.5 million as at 30 June 2014 were mainly attributable to the acquisition of China Scivest.

The concession right in relation to China Scivest was determined by the sum of the consideration for the acquisition and the book value of outstanding bank loan, less the fair values of the underlying assets and liabilities (excluding bank loan), at the time of completion of the acquisition, with assistance from an independent valuation specialist, American Appraisal China Limited. Founded in 1896, American Appraisal is a global valuation-consulting firm providing independent fair market valuation of real estate, machinery and equipment, entire business, intangible assets including brands, intellectual property right and goodwill, equities, derivatives and other financial assets for public listing, investment, financing, accounting compliance and management decision making purposes. It has over 50 offices in 24 countries including Hong Kong, Beijing, Shanghai, Guangzhou, Shenzhen and Taipei. For further details of the concession rights, please refer to Note 30 “Business combinations — (b) Acquisition of Swift Ample” of Section II to the Accountants’ Report set out in Appendix I to this [Redacted].



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**Inventories**

Our inventory primarily consists of raw materials, principally coal, as an auxiliary fuel source for our Eco-Tech WTE Plant and others such as chemicals and diesel oil used in our operations of our WTE projects. The following table sets forth a summary of our inventory balances as of the dates indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i>
Coal	2,093	2,032	1,278	—
Chemicals	126	290	155	131
Diesel oil	<u>201</u>	<u>210</u>	<u>146</u>	<u>141</u>
	<u>2,420</u>	<u>2,532</u>	<u>1,579</u>	<u>272</u>

The table below sets out our inventory turnover days for the years/period indicated:

	<b>For the year ended 31 December</b>			<b>For the</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>six months</b>
				<b>ended</b>
Inventories <sup>(Note)</sup>	<u>14.9</u>	<u>5.1</u>	<u>3.1</u>	<u>30 June</u>
				<u>2014</u>
				<u>0.3</u>

*Note:*

Inventory turnover days are calculated by dividing the ending inventories for the respective years/period by cost of sales and multiplying the resulting value by 365 days or 180 days, where appropriate.

We generally do not carry a significant amount of inventories in the ordinary course of our business. Our inventory balances as at 31 December 2011 and 2012 remained relatively stable. The balance decreased from HK\$2.5 million as at 31 December 2012 to HK\$1.6 million as at 31 December 2013 mainly due to certain amounts of coal ordered in late 2013 were being delivered in early 2014. The balance decreased from HK\$1.6 million as at 31 December 2013 to HK\$0.3 million as at 30 June 2014 because coal was no longer required as an auxiliary fuel source after the launch of Technological Upgrade of our Eco-Tech WTE Plant.

Our inventory turnover days decreased by 9.8 days, from 14.9 days as at 31 December 2011 to 5.1 days as at 31 December 2012 as we consolidated only about 2 months of Eco-Tech’s operating results in 2011. The decrease of turnover days from 5.1 days as at 31 December 2012 to 3.1 days as at 31 December 2013 and further to 0.3 days as at 30 June 2014 was mainly attributable to the decrease in inventories balance due to the same reasons as discussed previously.

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### Trade receivables, other receivables, deposits and prepayments

The table below sets out our trade receivables, other receivables, deposits and prepayments as at the relevant balance sheet dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014 HK\$'000
<b>Non-current assets</b>				
Prepayments for property, plant and equipment	8,626	12,394	25,382	46,820
Rental deposits	—	1,930	1,930	1,930
	<u>8,626</u>	<u>14,324</u>	<u>27,312</u>	<u>48,750</u>
<b>Current assets</b>				
Trade receivables - net	63,009	78,770	68,273	78,648
Deposits and prepayments	4,295	12,344	6,224	5,834
Other receivables	1,897	956	873	13,596
VAT recoverable	2,306	—	—	6,825
Amount due from related parties	—	—	82,984	—
	<u>71,507</u>	<u>92,070</u>	<u>158,354</u>	<u>104,903</u>
	<u>80,133</u>	<u>106,394</u>	<u>185,666</u>	<u>153,653</u>

(i) *Prepayments for property, plant and equipment*

Our non-current portion of prepayments for property, plant and equipment was mainly related to the purchase of fixed assets, construction works and spare parts for our maintenance works for our WTE plants, amounted to HK\$8.6 million, HK\$12.4 million, HK\$25.4 million and HK\$46.8 million as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The increase of HK\$3.8 million, or 44.2%, as at 31 December 2012 compared to 31 December 2011 was mainly attributable to the repair and maintenance and improvement works for our WTE plants in 2012. The balance further increased to HK\$25.4 million as at 31 December 2013, which included HK\$13.2 million related to the preparatory work for our Zhanjiang WTE Plant. The increase of HK\$21.4 million, or 84.3%, to HK\$46.8 million as at 30 June 2014 from 31 December 2013 was mainly attributable to the Technological Upgrade for our Eco-Tech WTE Plant.

(ii) *Rental deposits*

Rental deposits was related to the lease of our HK office since 2012.

(iii) *Trade receivables - net*

Our Group's trade receivables mainly represent power sales receivables from the local power grid company and waste treatment income receivables from the local government entities.

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The table below sets out our trade receivables as at the relevant balance sheet dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Trade receivables	63,009	82,841	72,472	82,807
Less: Allowance for impairment of trade receivables	<u>—</u>	<u>(4,071)</u>	<u>(4,199)</u>	<u>(4,159)</u>
<b>Trade receivables - net</b>	<u><b>63,009</b></u>	<u><b>78,770</b></u>	<u><b>68,273</b></u>	<u><b>78,648</b></u>

The following table sets out our trade receivables by customer type as at the relevant balance sheet dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
The local power grid company	29,002	22,713	26,496	23,050
MSW Suppliers (mainly local government entities)	<u>34,007</u>	<u>56,057</u>	<u>41,777</u>	<u>55,598</u>
	<u><b>63,009</b></u>	<u><b>78,770</b></u>	<u><b>68,273</b></u>	<u><b>78,648</b></u>

Our gross trade receivables increased from HK\$63.0 million as at 31 December 2011 to HK\$82.8 million as at 31 December 2012, which was mainly due to the increase in waste treatment income receivables as a result of increased MSW volume in 2012 due to the commencement of commercial operation of our Kewei. Compared to 31 December 2012, our gross trade receivables decreased by HK\$10.3 million, to HK\$72.5 million as at 31 December 2013, which was mainly due to improved internal payment approval processes undertaken by the local government entities in 2013. Compared to 31 December 2013, our gross trade receivables increased by HK\$10.3 million, to HK\$82.8 million as at 30 June 2014, which was mainly due to the increase in gross trade receivables as a result of the consolidation of our China-Scivest in 2014, which was partially offset by the suspension of the operations of the Eco-Tech WTE Plant in April 2014 for the Technological Upgrade.

As at 31 July 2014, approximately 49.0% of the balance of trade receivables as at 30 June 2014 has been settled.

Our policy for impairment on trade receivables is based on an evaluation of collectability and ageing analysis of the receivables that requires our management estimates and judgement. Provisions would be made when there are events or changes in circumstances which indicate that the receivables may not be collectible. Our management closely reviews the trade receivables balances and any

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overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After fully considering the nature of trade receivables and evaluating their collectability on a case-by-case basis, we made a provision for impairment of trade receivables of HK\$4.1 million for waste treatment fees in 2012 for one of our customers. The negotiation with this customer is still ongoing and the provision was made due to irregularity in its payment pattern and uncertainty in recoverability.

The table below sets out the ageing analysis of our trade receivables, based on the invoice date and net of allowance for doubtful debts, as at the relevant balance sheet dates indicated:

	<b>For the six months ended</b>			
	<b>For the year ended 31 December</b>			<b>30 June</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 1 month	37,988	32,592	37,808	38,685
1 to 3 months	11,406	19,248	17,330	25,186
3 to 6 months	4,744	13,302	9,216	11,426
Over 6 months	<u>8,871</u>	<u>13,628</u>	<u>3,919</u>	<u>3,351</u>
	<u>63,009</u>	<u>78,770</u>	<u>68,273</u>	<u>78,648</u>

Our Group usually grants a credit period ranging from 10 to 30 days to the local government entities for waste treatment fees and 30 days to the local power grid company for power sales. At 31 December 2011, 2012 and 2013 and 30 June 2014, our trade receivables of HK\$25.0 million, HK\$46.2 million, HK\$30.5 million and HK\$40.0 million were past due but not impaired. Receivables that were past due but not impaired were related to a number of independent customers that have a good track record with our Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Our Group does not hold any collateral over these balances.

The table below sets out our trade receivables turnover days for the years/period indicated:

	<b>For the six months ended</b>			
	<b>For the year ended 31 December</b>			<b>30 June</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
The local power grid company <sup>(Note)</sup>	99	31	37	22
MSW suppliers <sup>(Note)</sup>	262	168	119	95
Total <sup>(Note)</sup>	149	74	64	45

*Note:*

Trade receivables turnover days are calculated by dividing the ending balance of net trade receivables for the relevant years/period by revenue and multiplying the resulting value by 365 days or 180 days, where appropriate.

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Our trade receivables turnover days in respect of waste treatment fees during the Track Record Period were longer than our credit period of 30 days because the local government entities may take a longer time to settle their trade receivables due to their internal approval processes. Although payments were delayed due to long internal approval processes of the local government entities, payments were normally settled after approvals were obtained.

Our turnover days of trade receivables decreased from approximately 149 days for the year ended 31 December 2011 to approximately 74 days in 2012 as we only consolidated the operating results of our Eco-Tech for about two months in 2011. Besides, the improvement of utilisation rate in 2012 for our Kewei WTE Plant also led to the increase in our revenue in 2012 which in turn further decreased our trade turnover days in 2012. Our turnover days of trade receivables decreased from 74 days in 2012 to 64 days in 2013 and further decreased to 45 days for the six months ended 30 June 2014, which was mainly due to improved internal payment approval processes undertaken by the local government entities since 2013.

*(iv) Deposits and prepayments*

Our Group’s deposits and prepayments mainly consist of prepayments for the purchase of raw materials, prepaid insurance and other prepaid expenses. During the Track Record Period, our deposits and prepayments amounted to HK\$4.3 million, HK\$12.3 million, HK\$6.2 million and HK\$5.8 million as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively.

Our deposits and prepayments increased by HK\$8.0 million in 2012 compared to 2011, mainly resulted from a larger amount of prepayments for purchase of coal made to one of our suppliers in 2012 as we expected coal price to increase in 2013.

Our deposits and prepayments decreased by HK\$6.1 million in 2013 compared to 2012, mainly resulting from the decrease in prepayments for purchase of coal in anticipation of the Technological Upgrade for the Eco-Tech WTE Plant in 2014.

Our deposits and prepayments remained relatively stable as at 31 December 2013 and 30 June 2014.

*(v) Other receivables*

Our Group’s other receivables mainly represented social insurance paid on behalf of staff. The substantial increase in the other receivables balances as at 30 June 2014 when compared with that for as at 31 December 2013 was mainly because the balance as at 30 June 2014 included receivable from an Independent Third Party of HK\$9.3 million. As a result of the change of town planning in 2008, we have been requested by the local government to exchange a portion of land (the “**Exchange-in Land**”) with an Independent Third Party for another piece of land (the “**Exchange-out Land**”). Under such arrangement, we have paid the land premium of HK\$13.2 million for Exchange-in Land to the

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local government during the six months ended 30 June 2014 as the relevant Independent Third Party has not paid the land premium for the Exchange-in Land. We in turn receive an amount of HK\$9.3 million, which is equal to the value of the Exchange-out Land. In August 2014, such receivable was settled in full.

*(vi) VAT recoverable*

During the Track Record Period, our VAT recoverable recorded at HK\$2.3 million, HK\$nil, HK\$nil and HK\$6.8 million as at 31 December 2011, 2012 and 2013 and 30 June 2014. The balance as at 31 December 2011 and 30 June 2014 represented VAT recoverable of Kewei and China Scivest, respectively, which both were resulting from the deductible input VAT for the purchase of machineries and equipment.

*(vii) Amount due from a related party*

The amount due from a related party represented the amount due from Mr. KM Lai. The amount was non-trade in nature, unsecured, non-interest-bearing and repayable on demand. Balance of HK\$83.0 million as at 31 December 2013 was fully settled in January 2014.

***Available-for-sale financial assets***

Available-for-sale financial assets mainly represented investment in money market funds for the purpose of earning interest income from our surplus cash. Our Group disposed all our available-for-sale financial assets and recorded a gain amounted to HK\$203,000 during the six months ended 30 June 2014. We do not intend to invest in any available-for-sale financial assets in the future.

***Trade and other payables***

The table below sets out the breakdown of our trade and other payables as at the relevant balance sheet dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 June 2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	9,401	7,314	18,097	13,307
Accruals and other payables	75,290	59,406	45,465	119,411
Payable for machinery and construction projects	18,709	—	—	83,805
Retention money for machinery and construction projects	32,932	24,486	14,723	12,263
Accrued staff costs	6,530	6,828	7,439	6,050
Others	17,119	28,092	23,303	17,293
Amount due to a related party	<u>302,607</u>	<u>176,528</u>	—	—
	<u>387,298</u>	<u>243,248</u>	<u>63,562</u>	<u>132,718</u>

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(i) *Trade payables*

Our trade payables are primarily related to the purchase of coal and other materials used in our WTE Plants. The significant increase by HK\$10.8 million from 31 December 2012 to 31 December 2013 was mainly due to the fact that we no longer make prepayments to our coal suppliers in 2013 as we no longer need to secure coal supply in anticipation of the Technological Upgrade for the Eco-Tech WTE Plant. The decrease by HK\$4.8 million from 31 December 2013 to 30 June 2014 was mainly due to the decrease in the purchase of coal as a result of the suspension of operations of our Eco-Tech WTE Plant for its Technological Upgrade in April 2014.

As at 31 July 2014, approximately 57.4% of the balance of trade payables as at 30 June 2014 has been settled.

Our suppliers generally offer us trade credit periods ranging from 30 to 90 days. The table below sets out an ageing analysis of our trade payables as at the relevant balance sheet dates indicated based on invoice date:

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 1 month	7,649	4,234	10,447	5,348
1 to 2 months	934	470	3,300	3,432
2 to 3 months	377	1,372	2,753	2,465
Over 3 months	<u>441</u>	<u>1,238</u>	<u>1,597</u>	<u>2,062</u>
	<u>9,401</u>	<u>7,314</u>	<u>18,097</u>	<u>13,307</u>

The table below sets out our trade payables turnover days for the years/period indicated:

	For the year ended 31 December			For the six
	2011	2012	2013	months
				ended
				30 June
	2011	2012	2013	2014
Trade payables turnover days <i>(Note)</i>	58	15	35	16

*Note:*

Trade payables turnover days are calculated by dividing the ending trade payables for the respective years/period by cost of sales and multiplying the resulting value by 365 days or 180 days, where appropriate.

The high turnover days of trade payables in 2011 was mainly due to the consolidation of about two months operation result of Eco-Tech as we acquired Eco-Tech in October 2011. The fluctuations of trade payables turnover days during the Track Record Periods were mainly attributable to fluctuations of our trade payables due to the same reasons as discussed in the paragraph above.

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**FINANCIAL INFORMATION**

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*(ii) Accruals and other payables*

Our Group’s accruals and other payables mainly consist of payables for the purchase of machineries for WTE plants, retention payables related to equipment purchase, accrued staff costs and other staff benefits, VAT and other tax payables, provision related to land and construction related certificates and permits, payables for [Redacted] and others.

Provision related to land and construction related certificates and permits amounted to HK\$9.9 million as at 31 December 2011 and 2012 and HK\$9.3 million as at 31 December 2013. Such balances represented potential payments arising from the delay in obtaining land and construction related certificates and permits for the Eco-Tech WTE Plant. For details, please refer to “Business — Legal compliance and proceedings — Historical non-compliance incidents”. Of the balance as of 31 December 2013, provision of HK\$7.2 million was reversed as other income and the remainder was paid out during the six months ended 30 June 2014.

The decrease in accruals and other payables by HK\$15.9 million from 31 December 2011 to 31 December 2012 was mainly due to the settlement of payables for the purchase of machineries for our Kewei WTE Plant amounted to HK\$18.7 million and settlement of retention payables of the construction works for the Kewei WTE Plant during 2012, which was partially offset by the increase in VAT and other tax payables amounted to HK\$4.4 million due to increased power sales in 2012. The decrease in accruals and other payables by HK\$13.9 million from 31 December 2012 to 31 December 2013 was mainly due to the settlement of retention payables of the construction works for the Kewei WTE Plant during 2013. The increase by HK\$73.9 million in accruals and other payables from 31 December 2013 to 30 June 2014 was mainly attributable to the consolidation of payables for machinery and construction projects of China Scivest of HK\$83.8 million as a result of the acquisition of China Scivest in January 2014.

*(iii) Amount due to a related party*

The amount due to a related party represented the fund advanced by Mr. KM Lai mainly for financing the operation of the Group. The amount was non-trade in nature, unsecured, non-interest-bearing and repayable on demand. During the Track Record Period, the balance amounted to HK\$302.6 million and HK\$176.5 million as at 31 December 2011 and 2012, respectively. In 2013, such balance was waived by Mr. KM Lai and it was deemed as capital contribution from a shareholder.

**INDEBTEDNESS**

The table below sets out our borrowings as at each of the balance sheet dates indicated:

	<b>As at 31 December</b>			<b>As at 30 June</b>	<b>As at 31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>
<b>Bank borrowings</b>					
Non-current	399,346	323,734	293,807	842,152	875,220
Current	<u>95,596</u>	<u>147,993</u>	<u>87,760</u>	<u>178,886</u>	<u>154,561</u>
	<u>494,942</u>	<u>471,727</u>	<u>381,567</u>	<u>1,021,038</u>	<u>1,029,781</u>



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Bank borrowings are analysed as follows:

	As at 31 December			As at 30 June	As at 31 July
	2011	2012	2013	2014	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
Portion of term loans due for repayment after one year - secured	<u>399,346</u>	<u>323,734</u>	<u>293,807</u>	<u>842,152</u>	<u>875,220</u>
Portion of term loans due for repayment within one year - secured	21,586	86,329	87,760	178,886	154,561
Portion of term loans due for repayment after one year which contain a repayment on demand clauses - secured	<u>74,010</u>	<u>61,664</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>95,596</u>	<u>147,993</u>	<u>87,760</u>	<u>178,886</u>	<u>154,561</u>
Total bank borrowings	<u>494,942</u>	<u>471,727</u>	<u>381,567</u>	<u>1,021,038</u>	<u>1,029,781</u>

Due to the capital intensive nature of the WTE projects we develop, we have principally relied on borrowings to fund our capital requirements, and we expect to continue to do so in the foreseeable future. We generally incur long-term borrowings on a project basis to fund our business expansion and capital requirements.

As at the close of business on 31 July 2014, being the latest practicable date for the purpose of the indebtedness statement, we had aggregated total banking facilities of approximately HK\$1,371.6 million and HK\$341.8 million were unutilised.

During the Track Record Period, all of our bank borrowings were denominated in Renminbi. Our bank borrowings carried variable rates based on the prevailing interest rates announced by the PBOC. The following table sets out the range of interest rates for our borrowings as at the end of each reporting period during the Track Record Period:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
Bank borrowings - secured	<u>5.58% - 6.13%</u>	<u>6.08% - 6.70%</u>	<u>6.08% - 6.70%</u>	<u>6.08% - 6.55%</u>

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Our bank borrowings decreased from HK\$494.9 million as at 31 December 2011 to HK\$471.7 million as at 31 December 2012, and further decreased to HK\$381.6 million as at 31 December 2013, which was mainly due to the repayment of bank borrowings during the relevant years.

Our bank borrowings increased from HK\$381.6 million as at 31 December 2013 to HK\$1,021.0 million as at 30 June 2014. The increase was mainly attributable to the consolidation of China Scivest in January 2014. The bank borrowings of China Scivest was mainly used to finance its Technological Upgrade.

Our bank borrowings were secured by collection of revenue from power sales, land use rights, property, plant and equipment and corporate guarantee. Bank borrowings were also secured by corporate and personal guarantees provided by former shareholders of Eco-Tech and Kewei as at 31 December 2011 and 2012. Such corporate and personal guarantees were released in 2013.

Save as disclosed above and in the paragraph headed “Contingent liabilities” in this section, our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, or other similar indebtedness, or hire purchase commitments, liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities as at the close business on 30 June 2014. As at the Latest Practicable Date, the Directors confirm that our banking facilities were not subject to material covenants and there was not in breach of any such covenants during the Track Record Period and up to the Latest Practicable Date.

### **CONTINGENT LIABILITIES**

As at the Latest Practicable Date, we did not have contingent liabilities that would have a material adverse effect on our financial position, liquidity or result of operation. Our Directors confirm that we had not defaulted or delayed in any payment during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that, up to the Latest Practicable Date, there have been no material change in indebtedness, capital commitment and contingent liabilities of our Group since 31 July 2014, being latest practicable date for ascertaining our Group’s indebtedness prior to the printing of this [Redacted]. Our Directors further confirm that as at the Latest Practicable Date, save for the loan facilities for the Technological Upgrade of our Eco-Tech WTE Plant and our Zhanjiang Project as disclosed in the paragraphs headed “Our projects — Eco-Tech WTE Plant — Technological Upgrade of our Eco-Tech WTE Plant” and “Our projects — Zhanjiang WTE Plant” in the “Business” section in this [Redacted], our Group did not have any plans to raise any material debt financing shortly after [Redacted].

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### CONTRACTUAL AND CAPITAL COMMITMENTS

#### Operating lease commitments

At 31 December 2011, 2012, and 2013 and 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
Within 1 year	6	3,425	3,824	3,697
After 1 year but within 5 years	<u>—</u>	<u>4,845</u>	<u>1,533</u>	<u>411</u>
	<u>6</u>	<u>8,270</u>	<u>5,357</u>	<u>4,108</u>

#### Capital commitments

The table below sets out our Group’s capital expenditure contracted for but not yet incurred and provided for as at the relevant balance sheet dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2014</i> <i>HK\$'000</i>
<b>Authorised but not contracted for:</b>				
Construction cost for BOT	<u>—</u>	<u>784,922</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>784,922</u>	<u>—</u>	<u>—</u>
<b>Contracted but not provided for:</b>				
Property, plant and equipment - mainly for Eco-Tech Technological Upgrade	63,242	61,208	106,255	184,872
Construction cost for BOT - mainly for Zhanjiang	—	—	809,501	806,972
Consideration relating to the acquisition of Swift Ample	<u>—</u>	<u>—</u>	<u>127,190</u>	<u>—</u>
	<u>63,242</u>	<u>61,208</u>	<u>1,042,946</u>	<u>991,844</u>

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Our capital commitments for construction cost for BOT mainly represent the commitment under the Zhanjiang Concession Agreement.

### CAPITAL EXPENDITURES

#### Capital expenditures

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	819	4,398	9,305	8,437
Construction costs relating to service concession arrangements	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,280</u>
	<u>819</u>	<u>4,398</u>	<u>9,305</u>	<u>20,717</u>

Our Group’s capital expenditures consisted of expenditures on equipment purchase and construction costs relating to service concession arrangement. During the Track Record Period, our Group incurred capital expenditures of HK\$0.8 million, HK\$4.4 million, HK\$9.3 million and HK\$8.4 million, respectively, for each of the three years ended 31 December 2013 and the six months ended 30 June 2014, and a majority of which were related to the purchase of machineries and equipment primarily for our Eco-Tech WTE Plants. We also incurred capital expenditure of HK\$12.3 million for the six months ended 30 June 2014 which was attributable to preparatory work undertaken for the development for our Zhanjiang WTE Plant.

#### Planned capital expenditure

For the second half of the year ending 31 December 2014 and the year ending 31 December 2015, we estimate that the capital expenditure for our construction of WTE plants and other capital expenditure (including equipment purchase) will amount to HK\$256.1 million and HK\$748.6 million, respectively, out of such balances, HK\$169.2 million and HK\$316.9 million are expected to be spent for the Technological Upgrade for the Eco-Tech WTE Plant, in the second half of the year ending 31 December 2014 and 31 December 2015, respectively, and HK\$86.9 million and HK\$431.7 million are expected to be spent for phase one of the Zhanjiang Project for the same said period. As of the Latest Practicable Date, our Group has entered new bank loan agreements with the amount of HK\$378.0 million for the Technological Upgrade for the Eco-Tech WTE Plant and HK\$441.0 million for the construction for the Zhanjiang WTE Plant.

Our Group’s projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed “Future plans and [Redacted]” in this [Redacted] for further information.

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We expect to fund our contractual commitments and capital expenditures principally through the [Redacted] we receive from the [Redacted], cash generated from our operating activities, proceeds from borrowings and proceeds from the [Redacted]. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
Gross Profit Margin <sup>(Note 1)</sup>	61.5%	53.4%	51.9%	55.9%	52.7%
Net Profit Margin <sup>(Note 2)</sup>	27.5%	32.7%	33.6%	37.8%	37.3%
Return on equity <sup>(Note 3)</sup>	37.8%	55.3%	19.4%	N/A	20.5%
Return on total assets <sup>(Note 4)</sup>	4.2%	12.8%	10.6%	N/A	9.4%

	As at 31 December			As at 30 June
	2011	2012	2013	2014
Current ratio <sup>(Note 5)</sup>	0.3	0.4	2.5	2.0
Gearing ratio <sup>(Note 6)</sup>	483.3%	206.1%	50.1%	84.1%
Net debt to equity ratio <sup>(Note 7)</sup>	428.4%	186.6%	43.6%	51.7%

*Notes:*

- (1) Gross profit margin is calculated on gross profit divided by revenue for the respective years/periods.
- (2) Net profit margin is calculated on profit attributable to the equity holders divided by revenue for the respective years/periods.
- (3) Return on equity is calculated based on the profit attributable to the equity holders for the respective years/periods divided by the total equity attributable to the equity holders as of the respective dates and multiplied by 100%. (For the calculation of this ratio, profit attributable to the equity holders was annualised based on the actual result for the six months ended 30 June 2014)
- (4) Return on total assets is calculated based on the profit for the respective years/periods divided by the total assets of the respective dates and multiplied by 100%. (For the calculation of this ratio, profit was annualised based on the actual result for the six months ended 30 June 2014)
- (5) Current ratio is calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates.
- (6) Gearing ratio is calculated based on the total debt as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.
- (7) Net debt to equity ratio is calculated based on net debts (being total borrowings net of cash and cash equivalents) as of the respective dates divided by total equity as of the respective dates and multiplied by 100%.

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## **FINANCIAL INFORMATION**

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### **Gross profit margin**

Our gross profit margin decreased from 61.5% in 2011 to 53.4% in 2012, mainly due to the increase in the proportion of revenue from the Eco-Tech WTE Plant, which had a lower gross profit margin as discussed previously, which was partially offset by the increase in waste treatment utilisation rate of the Kewei WTE Plant.

Our gross profit margin decreased slightly from 53.4% in 2012 to 51.9% in 2013, mainly due to the increase in environmental protection expenses in 2013.

Our gross profit margin decreased from 55.9% for the six months ended 30 June 2013 to 52.7% for the six months ended 30 June 2014, mainly due to (i) the low gross profit margin for our Zhanjiang WTE Plant as it only recognised construction revenue and finance income relating to service concession arrangement during the six months ended 30 June 2014; and (ii) the increase in the environmental protection costs incurred for the six months ended 30 June 2014.

### **Net profit margin**

Despite decrease in gross profit margin, our net profit margin improved gradually from 2011 to 2013, primarily due to the decrease in effective income tax rate in 2012 and 2013 as discussed previously.

Our net profit margin remained relatively stable at 37.8% and 37.3% for the six months ended 30 June 2013 and 2014, respectively.

### **Return on equity**

Our return on equity increased from 37.8% in 2011 to 55.3% in 2012, which was mainly attributable to the increase in the net profit in 2012, which was primarily due to the full year operating result being consolidated after the acquisition of our Eco-Tech in October 2011 and the increased utilisation rate of the Kewei WTE Plant in 2012.

Our return on equity decreased from 55.3% in 2012 to 19.4% in 2013, which was mainly due to increase in equity as a result of deemed capital contribution from Mr. KM Lai through the waiver of the amount due to Mr. KM Lai during 2013.

Our return on equity increased slightly from 19.4% in 2013 to 20.5% for the six months ended 30 June 2014, which was mainly due to the net effect of (i) the increase in annualised profit attributable to equity holders as a result of the acquisition of China Scivest in January 2014; and (ii) the increase in equity of the Group as a result of capital contribution from the funds received from the [Redacted].

### **Return on total assets**

Our return on total assets increased from 4.2% in 2011 to 12.8% in 2012, which was primarily attributable to (i) the increase in net profit in 2012 mainly due to the full year operating result of Eco-Tech being consolidated after the acquisition of our Eco Tech in October 2011 and (ii) the increase in utilisation rate of our Kewei WTE Plant in 2012.

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## **FINANCIAL INFORMATION**

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Our return on total assets decreased from 12.8% in 2012 to 10.6% in 2013, which was primarily attributable to the capital injection of HK\$84.5 million from High Point in 2013.

Our return on total assets decreased from 10.6% for the year ended 31 December 2013 to 9.4% for the six months ended 30 June 2014, which was primarily attributable to the increase in total assets as a result of the acquisition of China Scivest in January 2014.

### **Current ratio**

Our current ratio remained relatively stable at 0.3 and 0.4 as at 31 December 2011 and 2012, respectively.

Our current ratio increased significantly from 0.4 as at 31 December 2012 to 2.5 as at 31 December 2013, which was mainly due to (i) the decrease in other payables through the waiver of the amount due to Mr. KM Lai of HK\$297.4 million; and (ii) the capital injection from High Point of HK\$84.5 million in 2013.

Our current ratio remained relatively stable at 2.5 and 2.0 as at 31 December 2013 and 30 June 2014, respectively.

### **Gearing ratio and net debt to equity ratio**

Our gearing ratio was 483.3%, 206.1%, 50.1% and 84.1% as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. This is consistent with our net debt to equity ratio of 428.4%, 186.6%, 43.6% and 51.7% as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The high gearing ratio and net debt to equity ratio as at 31 December 2011 was mainly due to high level of bank borrowings mainly used to finance the construction of our Eco-Tech WTE Plant and Kewei WTE Plant.

The fall in our gearing ratio and net debt to equity ratio as at 31 December 2012 as compared to 31 December 2011 was mainly due to (i) net profit earned in 2012 and; (ii) repayment of bank borrowings in 2012.

Our gearing ratio further decreased from 206.1% as at 31 December 2012 to 50.1% as at 31 December 2013, mainly due to (i) increase in total equity as a result of the deemed contribution from Mr. KM Lai through the waiver of amount due to him of HK\$297.4 million, capital injection of HK\$84.5 million from High Point in 2013 and net profit earned in 2013; and (ii) repayment of bank borrowings. This is consistent with the decrease of net debt to equity ratio from 186.6% as at 31 December 2012 to 43.6% as at 31 December 2013.

Our gearing ratio increased from 50.1% as at 31 December 2013 to 84.1% as at 30 June 2014, mainly due to the increase in bank borrowings at 30 June 2014 from consolidation of our China Scivest, which is partially offset by the capital contribution from the [Redacted]. This is consistent with the increase of net debt to equity ratio from 43.6% as at 31 December 2013 to 51.7% as at 30 June 2014, respectively.

## **FINANCIAL INFORMATION**

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[Redacted]

### **OFF-BALANCE SHEET ARRANGEMENTS**

As at the Latest Practicable Date, our Group had not entered into any off-balance sheet transactions.

### **RELATED PARTY TRANSACTIONS**

With respect to the related party transactions set forth in Note 34 “Related party transaction” of Section II to the Accountant’s Report set out in Appendix I to this [Redacted], our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties, and were fair and reasonable and in the interest of our Shareholders as a whole.

### **DIVIDEND POLICY**

Our Company has not declared or paid any dividend since the date of incorporation up to the Latest Practicable Date. Eco-Tech, a subsidiary of our Company declared and paid a dividend of approximately HK\$39.5 million to its then non-controlling shareholders for the year ended 31 December 2011.

Our Group currently does not have a fixed dividend policy and the declaration, payment and amount of any future dividends will be subject to our discretion. The declaration and payment of any future dividends (including the amount) will depend on our financial condition, results of operation, level of cash, statutory and regulatory restrictions in relation thereto, future prospects, and other factors that our Directors may consider relevant. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of its plans, or at all. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.



## **FINANCIAL INFORMATION**

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Dividends may be paid only out of our Group’s distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our Group’s operation.

### **DISTRIBUTABLE RESERVES**

As at 30 June 2014, our Company had no distributable reserves.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to market risks from changes in market rates and prices, such as foreign exchange risk, interest rates risk, credit risk and liquidity risk.

#### **Foreign exchange risk**

Since the subsidiaries now comprising our Group mainly operate in the PRC with transactions mainly settled in RMB, being the functional currency of the subsidiaries now comprising our Group, it is not exposed to significant foreign exchange risk.

#### **Credit risk**

The credit risk of our Group mainly arise from bank deposits and trade and other receivables. Majority of bank deposits are placed with reputable banks and financial institutions. The carrying values of these balances represent the Group’s maximum exposure to credit risk in relation to the financial statements.

For trade and other receivables, the credit quality of the counterparties is assessed by considering their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

Our Group has concentration of credit risk. As at 31 December 2011, 2012 and 2013 and 30 June 2014, 46%, 30%, 45% and 29%, respectively, of the total trade receivables was due from our Group’s largest customer, and 73%, 66%, 70% and 50%, respectively, of the total trade receivables were due from the five largest customers.

The carrying values of these balances represent our Group’s maximum exposure to credit risk in relation to our financial statements.

#### **Liquidity risk**

Liquidity risk relates to the risk that we will not be able to meet our financial obligations associated with our financial liabilities that are settled by delivering cash or other financial assets. Our Group is exposed to liquidity risk in respect of the settlement, financing obligation and cash flow management of trade payables. Our objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and long term.

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## **FINANCIAL INFORMATION**

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Our Group manages our liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long term financial liabilities and forecast cash inflows and outflows in day to day business. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls.

Specifically, as at 31 December 2011 and 2012, for bank borrowings which contained a repayment on demand clause and could be exercised at the banks’ sole discretion, the balances had been reclassified as current liabilities. These loans will mature during the year ended 31 December 2014 and the related balances are classified as current liabilities as at 31 December 2013.

### **Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our Group’s interest rate risk arises primarily from bank borrowings. Bank borrowings bearing variable rates expose our Group to cash flow interest rate risk. The exposure to interest rates for our Group’s short term bank deposits is considered immaterial.

Our Group does not have an interest rate hedging policy. However, our management monitors our Group’s interest rate exposure and will consider hedging significant exposure should the need arises.

During each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates of net variable rate instruments, with all other variables held constant, would have decreased/increased the our profit after tax and retained earnings by approximately HK\$4.2 million, HK\$4.2 million, HK\$4.0 million, HK\$1.9 million and HK\$7.6 million, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the balance sheet date and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments in existence at the balance sheet date.

### **DISCLOSURE REQUIRED UNDER THE [REDACTED]**

Our Directors have confirmed that as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the [Redacted].

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## **FINANCIAL INFORMATION**

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### **RECENT DEVELOPMENTS OF OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD AND NO MATERIAL ADVERSE CHANGE**

During the six months ended 30 June 2014, we recorded a strong increase in revenue and profit attributable to equity holders of the Company when comparing that for the corresponding period in 2013. Such strong growth was mainly attributable to our acquisition of the China Scivest in January 2014. However, our Directors expected that we would continue to experience substantial loss of revenue from May 2014 onwards until after the completion of the Technological Upgrade of our Eco-Tech WTE Plant, and we would continue to mainly rely on our Kewei WTE Plant and China Scivest WTE Plant for revenue and cash generation during the Technological Upgrade of our Eco-Tech WTE Plant.

As far as we are aware, there was no material change in the general market conditions in the PRC WTE industry that had affected or would affect our business operations or financial conditions materially and adversely.

For the one month ended 31 July 2014, the revenue decreased while gross profit margin increased when compared with the average for the six months ended 30 June 2014 as a result of suspension of operation of our Eco-Tech WTE Plant for its Technological Upgrade. Our Directors have confirmed that, up to the date of [Redacted], there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2014, being the date on which the last date of our latest financial results as set out in the Accountant’s Report set out in Appendix I to this [Redacted].

### **FINANCIAL INFORMATION OF WORLDTRON LIMITED AND ITS SUBSIDIARIES**

On 17 October 2011, our Group acquired 100% equity interest in Worldtron Limited, which indirectly held a 40% equity interest in Eco-Tech, from an Independent Third Party. The acquired equity interest in Worldtron Limited, together with Mr. KM Lai’s 15% previously held beneficial interest in Eco-Tech, enable Eco-Tech to become a 55% owned subsidiary comprising our Group controlled by Mr. KM Lai. Mr. KM Lai subsequently transferred his 15% beneficial interest in Eco-Tech to our Group at a consideration of RMB12,780,000 (equivalent to HK\$15,693,000). The consideration was paid to Mr. KM Lai in 2012. This acquisition was accounted for by applying the acquisition method of accounting. For further details please refer to Note 30 “Business combinations — (a) Acquisition of Worldtron Limited” of Section II to the Accountant’s Report set out in Appendix I to this [Redacted].

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**FINANCIAL INFORMATION**

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**Results of Operations**

The table below sets forth the consolidated income statement of Worldtron and its subsidiaries for the period indicated.

	<b>Period from 1 January 2011 to 17 October 2011</b> <i>HK\$'000</i>
Revenue	158,331
Cost of sales	<u>(116,569)</u>
<b>Gross profit</b>	41,762
General and administrative expenses	(15,674)
Other income	<u>7,590</u>
<b>Operating profit</b>	<u>33,678</u>
Interest income	96
Interest expense	<u>(4,275)</u>
Interest income - net	<u>(4,179)</u>
<b>Profit before income tax</b>	29,499
Income tax expenses	<u>(8,391)</u>
<b>Profit for the period</b>	<u><u>21,108</u></u>

**DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED INCOME STATEMENT**

**Revenue**

The main sources of revenue from the Eco-Tech WTE Plant were power sales and waste treatment fees. Worldtron Limited and its subsidiaries recorded revenue of HK\$158.3 million for the period from 1 January 2011 to 17 October 2011.

The following table sets out the breakdown of its revenue during the period indicated.

	<b>Period from 1 January 2011 to 17 October 2011</b> <i>HK\$'000</i>
Revenue from power sales	100,803
Waste treatment fees	<u>57,528</u>
<b>Total</b>	<u><u>158,331</u></u>

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## FINANCIAL INFORMATION

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### Cost of Sales

Cost of sales primarily consisted of cost of inventories, maintenance cost, depreciation and amortisation incurred for the Eco-Tech WTE Plant, employee benefit expenses and environmental protection expenses. The cost of inventories mainly represented purchase for coal as the Eco-Tech WTE Plant required coal as an auxiliary fuel in the incineration process during the period.

### Gross Profit and gross profit margin

During the period from 1 January 2011 to 17 October 2011, Worldtron Limited and its subsidiaries recorded gross profit of HK\$41.8 million and gross profit margin of 26.4%.

### General and administrative expenses

General and administrative expenses mainly consist of employee benefit expenses for administrative personnel, depreciation and amortisation, and other administrative expenses. For the period from 1 January 2011 to 17 October 2011, Worldtron Limited and its subsidiaries incurred administrative expenses of HK\$15.7 million.

### Other income

Other income mainly consisted of VAT refund in respect of the Eco-Tech WTE Plant.

### Interest income, net

Net interest expense represented interest expense on bank borrowings, net of interest income from bank deposits.

### Cash flows

	<b>Period from 1 January 2011 to 17 October 2011</b> <i>HK\$'000</i>
Net cash generated from operating activities	45,212
Net cash used in investing activities	(3,298)
Net cash used in financing activities	<u>(32,511)</u>
Net increase in cash and cash equivalents	9,403
Cash and cash equivalents at beginning of period	15,527
Currency translation differences	<u>1,118</u>
Cash and cash equivalents at end of period	<u><u>26,048</u></u>

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## FINANCIAL INFORMATION

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### *Operating activities*

For the period ended 17 October 2011, Worldtron Limited and its subsidiaries had net cash generated from operating activities of HK\$45.2 million, which was mainly attributable to the profit before income tax of HK\$29.5 million, adjusted for the depreciation of property, plant and equipment of HK\$17.7 million and interest expense of HK\$4.3 million, and the decrease in trade and other receivables of HK\$6.6 million mainly resulting from settlement from customers.

### *Investing activities*

For the period ended 17 October 2011, Worldtron Limited and its subsidiaries had net cash used in investing activities of HK\$3.3 million, which was mainly attributable to the purchase of property, plant and equipment of HK\$3.4 million primarily for use in the WTE operations.

### *Financing activities*

For the period ended 17 October 2011, Worldtron Limited and its subsidiaries had net cash used in financing activities of HK\$32.5 million, mainly due to the repayment of bank loans of HK\$10.2 million, the payment of loan interests of HK\$4.3 million and repayment to related parties of HK\$18.0 million.

### **Net Current liabilities**

	<b>As at 17 October 2011 HK\$'000</b>
<b>Current assets</b>	
Inventories	5,839
Trade receivables	43,733
Deposits, prepayments and other receivables	54,264
Cash and cash equivalents	26,048
	<u>129,884</u>
<b>Current liabilities</b>	
Trade payables	7,881
Other payables and accruals	83,514
Borrowings	87,794
Current income tax liabilities	2,052
	<u>181,241</u>
<b>Net current liabilities</b>	<u><u>(51,357)</u></u>

Worldtron and its subsidiaries recorded net current liabilities of HK\$51.4 million as at 17 October 2011. The net current liabilities position was mainly attributable to bank borrowings used for construction of the Eco-Tech WTE Plant.

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## FINANCIAL INFORMATION

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### DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

#### Trade receivables, deposits, prepayments and other receivables

The table below sets out Worldtron and its subsidiaries’ trade receivables, deposits, prepayments and other receivables as at the relevant balance sheet date indicated.

	<b>As at</b> <b>17 October 2011</b> <i>HK\$’000</i>
Trade receivables	43,733
Other receivables	1,564
Deposits and prepayments	4,624
Amount due from a shareholder	48,076
	<u>97,997</u>

Trade receivables mainly represented power sales receivables from the local power grid company and waste treatment income receivables from the local government entities. The amount due from a then shareholder was unsecured, interest free and repayable on demand.

#### Trade payables, other payables and accruals

The table below sets out our trade payables, other payables and accruals as at the relevant balance sheet date indicated.

	<b>As at</b> <b>17 October 2011</b> <i>HK\$’000</i>
Trade payables	<u>7,881</u>
Other payables and accruals:	
Accruals and other payables	35,878
Amount due to a related party	21,838
Amount due to CPNE	25,798
	<u>83,514</u>
	<u>91,395</u>

Trade payables were primarily related to the purchase of coal and other materials used for the operation of the Eco-Tech WTE Plant. Accruals and other payables mainly represented payables related to the construction works of Eco-Tech WTE Plant and the purchase of machineries, and the one-off provision of HK\$9.9 million relating to potential payment arising from delay in obtaining land and construction related certificates and permits. We also recorded amount due to Kewei, a related party of HK\$21.8 million and the amount due to CPNE of HK\$25.8 million as at 17 October 2011, which were unsecured, interest free and repayable on demand.

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**FINANCIAL INFORMATION**

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**Bank borrowings**

The table below sets out our bank borrowings as at the balance sheet date indicated.

	<b>As at</b> <b>17 October 2011</b> <i>HK\$'000</i>
Portion of term loans due for repayment after one year which contained a repayment on demand clause — secured	<u>87,794</u>

The bank borrowings consisted of term loans that were due for repayment after one year and contained a repayment on demand clause as at 17 October 2011. Accordingly all such borrowings were classified as current liabilities.

**FINANCIAL INFORMATION OF SWIFT AMPLE BUSINESS**

To bolster our dominant market position in Dongguan, Guangdong Province, we acquired the entire issued share capital of Swift Ample in January 2014, the business of which was carried out by its subsidiary China Scivest which operates the China Scivest WTE Plant. For further details of the background of China Scivest, please refer to the section headed “History and development — History” in this [Redacted] and Note 30 “Business combinations — (b) Acquisition of Swift Ample” of Section II to the Accountant’s Report set out in Appendix I to this [Redacted].



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**FINANCIAL INFORMATION**

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**CONSOLIDATED INCOME STATEMENTS**

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	71,493	334,842	402,786
Cost of sales	<u>(62,652)</u>	<u>(279,196)</u>	<u>(280,667)</u>
<b>Gross profit</b>	8,841	55,646	122,119
General and administrative expenses	(11,354)	(1,752)	(8,872)
Other income	1,821	477	—
Other gain, net	<u>—</u>	<u>149</u>	<u>337</u>
<b>Operating (loss)/profit</b>	<u>(692)</u>	<u>54,520</u>	<u>113,584</u>
Interest income	125	78	68
Interest expense	<u>(19,195)</u>	<u>(19,645)</u>	<u>(31,368)</u>
Interest expense, net	<u>(19,070)</u>	<u>(19,567)</u>	<u>(31,300)</u>
<b>(Loss)/profit before income tax</b>	(19,762)	34,953	82,284
Income tax expense	<u>—</u>	<u>(9,528)</u>	<u>(8,326)</u>
<b>(Loss)/profit for the year attributable to equity holders</b>	<u>(19,762)</u>	<u>25,425</u>	<u>73,958</u>

**DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED INCOME STATEMENT**

**Revenue**

The China Scivest WTE Plant was a BOT project. Its operations were suspended since October 2011 to undergo Technological Upgrade and it resumed its trial operation in July 2013. The main sources of revenue from China Scivest WTE Plant during the Track Record Period were (a) revenue from power sales; (b) waste treatment fees; and (c) construction revenue.

For the details of recognition for construction revenue relating to service concession arrangement, please refer to the subsection headed “Key factors affecting financial condition and results of operations of our Group - BOO and BOT projects accounting implications” under this section. No finance income relating to service concession arrangement is recognised because the supplemental concession agreements entered into between China Scivest and Dongguan Municipal Administration in 2012 and 2014 did not contain a guarantee mechanism for the minimum supply of MSW.

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**FINANCIAL INFORMATION**

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The following table sets out the breakdown of Swift Ample Business’s revenue during the periods indicated:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue from power sales	51,887	—	65,700
Waste treatment fees	19,606	—	38,255
Construction revenue	<u>—</u>	<u>334,842</u>	<u>298,831</u>
	<u>71,493</u>	<u>334,842</u>	<u>402,786</u>

During the suspension of operations for its Technological Upgrade, no revenue from power sales and waste treatment fees were recognised. During the same period, construction revenue relating to upgrade service under the BOT concession arrangement was recognised based on the percentage of completion method. Construction revenue from its Technological Upgrade were HK\$334.8 million and HK\$298.8 million in 2012 and 2013, respectively. With the completion of the Technological Upgrade, no further construction revenue would be recognised going forward.

**Cost of Sales**

The following table sets out the breakdown of Swift Ample Business’s cost of sales during the periods indicated:

	<b>Year ended 31 December</b>					
	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Cost of coal	44,108	70.4%	—	0%	—	0%
Cost of fuel	631	1.0%	—	0%	684	0.3%
Construction cost	—	0.0%	279,035	99.9%	249,026	88.7%
Maintenance	2,552	4.1%	161	0.1%	2,869	1.0%
Depreciation and amortisation	4,600	7.3%	—	0.0%	17,216	6.1%
Employee benefit expenses	5,854	9.4%	—	0.0%	3,063	1.1%
Environmental protection expenses	3,281	5.2%	—	0.0%	7,716	2.8%
Others	<u>1,626</u>	<u>2.6%</u>	<u>—</u>	<u>0.0%</u>	<u>93</u>	<u>0.0%</u>
	<u>62,652</u>	<u>100.0%</u>	<u>279,196</u>	<u>100.0%</u>	<u>280,667</u>	<u>100.0%</u>

## **FINANCIAL INFORMATION**

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In the course of normal operations of the China Scivest WTE Plant, cost of sales primarily consisted of employee benefit expenses, depreciation and amortisation, cost of inventories (including coal as an auxiliary fuel source preceding the Technological Upgrade), other raw materials, maintenance and environmental protection expenses. After the Technological Upgrade of the China Scivest WTE Plant in 2013, China Scivest WTE Plant no longer required coal as auxiliary fuel source, thus it had not incur any cost of coal since then.

During the Technological Upgrade, cost of sales mainly consisted of construction costs incurred for the Technological Upgrade. During the three years ended 31 December 2013, Swift Ample Business recorded HK\$nil, HK\$279.0 million and HK\$249.0 million of construction cost, respectively. After the Technological Upgrade of the China Scivest WTE Plant in 2013, no further construction cost had been incurred since then.

### **Gross Profit and gross profit margin**

Swift Ample Business generated gross profit of HK\$8.8 million, HK\$55.6 million and HK\$122.1 million for the three years ended 31 December 2013, which equated to gross margin of 12.4%, 16.6% and 30.3%, respectively. The lower gross profit margin in 2011 was mainly attributable to its gradual shutdown for the Technological Upgrade. The increase in gross profit in 2012 were mainly attributable to the construction revenue arising from the Technological Upgrade. The increase in gross profit in 2013 was mainly due to operation after Technological Upgrade. The increase in gross profit margin from 16.6% in 2012 to 30.3% in 2013 was mainly due to the recommencement of trial operation of the China Scivest WTE Plant in July 2013, which commenced to generate revenue from power sales and waste treatment fees that contributed to a higher gross margin.

### **General and administrative expenses**

General and administrative expenses mainly consisted of employee benefit expenses, entertainment and travelling expenses, depreciation and amortisation, stamp duty and other tax expenses. Swift Ample Business only incurred a minimal general and administrative expense during the two years ended 31 December 2012 and 2013 as China Scivest WTE Plant only recommenced trial operation in July 2013 subsequent to the completion of its Technological Upgrade.

### **Other income**

Other income mainly consisted of VAT refund in respect of the China Scivest WTE Plant which China Scivest was entitled.

### **Other gain, net**

Other net gain mainly represented net exchange gain or loss.

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**FINANCIAL INFORMATION**

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**Interest expense, net**

The net interest expenses arisen from the interest expenses on bank borrowings, net of those capitalised as intangible assets. Interest income was generated from bank deposits. The increase in interest expenses in 2013 as was mainly due to the increase in average bank loan balances to finance the Technological Upgrade.

**Income tax expense**

China Scivest now comprising Swift Ample Business which was incorporated in the PRC and was subject to a tax rate of 25% for each of the years ended 31 December 2011, 2012 and 2013 on the assessable profits arising in or derived from the PRC, except for the followings:

- i) China Scivest was entitled to a two-year exemption from PRC enterprise income tax in 2008 and 2009, followed by a 50% reduction in PRC enterprise income tax rate in 2010, 2011 and 2012. Accordingly, the applicable tax rate for China Scivest was 12.5% for each of the years ended 31 December 2011 and 2012.
- ii) China Scivest has obtained an approval for an EIT tax incentive that its project will be fully exempted from the PRC enterprise income tax for three years starting from 2013 to 2015, followed by a 50% tax exemption for the next three years from 2016 to 2018. Accordingly, the applicable tax rate for China Scivest was 0% for the year ended 31 December 2013.

The effective tax rate for the Swift Ample Business for the three years ended 31 December 2013 was 0%, 27.3% and 10.1%, respectively. The income tax expenses charged for the year ended 31 December 2011 was 0% as Swift Ample Business did not generate taxable profit for the year. The income tax expenses charged for the two years ended 31 December 2012 and 2013 was related to the deferred tax charges for the temporary differences on concession right.

**Cash flows**

	<b>For the year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(21,310)	(199,366)	(134,090)
Net cash (used in)/generated from investing activities	(3,504)	2,506	(2,041)
Net cash generated from financing activities	<u>18,895</u>	<u>200,138</u>	<u>143,059</u>
Net (decrease)/increase in cash and cash equivalents	(5,919)	3,278	6,928
Cash and cash equivalents at beginning of year	9,915	3,175	6,444
Currency translation differences	(821)	(9)	270
Cash and cash equivalents at end of year	<u><u>3,175</u></u>	<u><u>6,444</u></u>	<u><u>13,642</u></u>

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## **FINANCIAL INFORMATION**

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### *Operating activities*

For the year ended 31 December 2013, Swift Ample Business had net cash used in operating activities of HK\$134.1 million, which was mainly attributable to the profit before income tax of HK\$82.3 million generated during the year, adjusted for interest expense of HK\$31.4 million, amortisation of the concession rights of HK\$17.2 million and increase in trade and other payables of HK\$83.7 million; and was partially offset by the change in working capital mainly from the increase in trade and other receivables of HK\$49.4 million primarily resulting from the recommencement of trial operation of the China Scivest WTE Plant in July 2013.

For the year ended 31 December 2012, Swift Ample Business had net cash used in operating activities of HK\$199.4 million, which was mainly attributable to the profit before income tax of HK\$35.0 million generated during the year, with adjustment of construction revenue of HK\$334.8 million partially offset by decrease in non-current prepayment of HK\$35.4 million in relation to the Technological Upgrade for the China Scivest WTE Plant starting from October 2011 and increase in trade and other payables of HK\$44.7 million related to construction payables; and the adjustments for the interest expense of HK\$19.6 million for 2012.

For the year ended 31 December 2011, Swift Ample Business had net cash used in operating activities of HK\$21.3 million, which was mainly attributable to loss before income tax of HK\$19.8 million in 2011, payment for non-current prepayments for Technological Upgrades and increase in long term prepayments of HK\$36.3 million related to the Technological Upgrades; and was partially offset by (i) the decrease in trade and other receivables of HK\$11.8 million resulting from the suspension of operations for the China Scivest WTE Plant starting from October 2011, and (ii) adjustments for the interest expense of HK\$19.2 million and amortisation of the concession rights of HK\$4.6 million for 2011.

### *Investing activities*

For the year ended 31 December 2013, Swift Ample Business had net cash used in investing activities of HK\$2.0 million, mainly due to the payment of capital expenditure of HK\$2.3 million for the China Scivest WTE Plant in 2013.

For the year ended 31 December 2012, Swift Ample Business had net cash generated from investing activities of HK\$2.5 million, mainly due to the proceeds from disposal of available-for-sale financial assets of HK\$2.5 million invested.

For the year ended 31 December 2011, Swift Ample Business had net cash used in investing activities of HK\$3.5 million, mainly due to the payment of capital expenditure of HK\$1.2 million for the China Scivest WTE Plant in 2011 and purchase of available-for-sale financial assets of HK\$2.4 million from surplus cash.

### *Financing activities*

For the year ended 31 December 2013, Swift Ample Business had net cash generated from financing activities of HK\$143.1 million, mainly due to the proceeds from the borrowings of HK\$105.2 million and increase in advance from related parties of HK\$117.9 million, which was partially offset by the repayment of borrowings and loan interest of HK\$50.8 million and repayment of amounts due to a shareholder of HK\$29.3 million.

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**FINANCIAL INFORMATION**

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For the year ended 31 December 2012, Swift Ample Business had net cash generated from financing activities of HK\$200.1 million, mainly due to the proceeds from the borrowings of HK\$328.1 million and increase in advance from related parties of HK\$21.0 million, which was partially offset by repayment to related parties of HK\$129.3 million and payment of loan interest of HK\$19.6 million.

For the year ended 31 December 2011, Swift Ample Business had net cash generated from financing activities of HK\$18.9 million, mainly due to proceeds from the borrowings of HK\$316.6 million, which was partially offset by the repayment of borrowings and loan interest of HK\$278.2 million.

**Net current liabilities**

The table below sets out selected information for Swift Ample Business’s current assets and current liabilities as at the relevant balance sheet dates:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current assets</b>			
Inventories	—	—	267
Trade receivables	1,792	—	33,891
Deposits, prepayments and other receivables	2,189	3,370	18,930
Available-for-sale financial assets	2,467	—	—
Cash and cash equivalents	<u>3,175</u>	<u>6,444</u>	<u>13,642</u>
	<u>9,623</u>	<u>9,814</u>	<u>66,730</u>
<b>Current liabilities</b>			
Trade and other payables	199,162	135,344	148,084
Borrowings	<u>320,710</u>	<u>648,702</u>	<u>756,140</u>
	<u>519,872</u>	<u>784,046</u>	<u>904,224</u>
<b>Net current liabilities</b>	<u>(510,249)</u>	<u>(774,232)</u>	<u>(837,494)</u>

As at 31 December 2011, 2012 and 2013, Swift Ample Business had net current liabilities of HK\$510.2 million, HK\$774.2 million and HK\$837.5 million, respectively. The net current liabilities position of Swift Ample’s Business was primarily attributable to bank borrowings. The Group relied on long term borrowings to finance the development and the Technological Upgrade of the China Scivest WTE Plant. Such borrowings were term loans due for repayment after one year with a repayment on demand clause. Accordingly, all such borrowings were classified as current liabilities and resulted in net current liabilities position.

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**FINANCIAL INFORMATION**

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The increase in net current liabilities by HK\$264.0 million in 2012 compared to 2011 was mainly due to additional bank loans drawn for the Technological Upgrade. The increase in net current liabilities by HK\$63.3 million in 2013 as compared to 2012 was mainly due to additional bank loans drawn for the Technological Upgrade, which was partially offset by the recommencement of trial operation of the China Scivest WTE Plant in 2013.

**DISCUSSION OF CERTAIN BALANCE SHEET ITEMS**

**Intangible Assets**

Intangible assets represent concession right under the BOT arrangement. As at 31 December 2010, the then management had performed impairment assessment of the intangible asset with the view that the economic benefit from the then existing concession right would be fully utilised during 2011 and the balance is then written down to its then estimated recoverable amount. The addition in intangible assets during the two years ended 31 December 2012 and 2013 was resulted from the Technological Upgrade of the China Scivest WTE Plant.

**Trade receivables, deposits, prepayments and other receivables**

The table below sets out trade receivables, deposits, prepayments and other receivables as at each of the balance sheet dates indicated:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current asset</b>			
Prepayments for construction	<u>36,487</u>	<u>1,151</u>	<u>1,817</u>
<b>Current assets</b>			
Trade receivables	1,792	—	33,891
Deposits and prepayments	76	292	394
VAT recoverable	1,580	2,936	18,536
Other receivables	<u>533</u>	<u>142</u>	<u>—</u>
	<u>3,981</u>	<u>3,370</u>	<u>52,821</u>
	<u>40,468</u>	<u>4,521</u>	<u>54,638</u>

The balance of the non-current portion of prepayments for construction recorded HK\$36.5 million in 2011 was mainly related to the Technological Upgrade for the China Scivest WTE Plant.

Trade receivables mainly represent power sales receivables from the local power grid company and waste treatment fee receivables from the local government entities. The credit period granted by Swift Ample Business is up to 30 days. As at 31 December 2011, 2012 and 2013, the balance of trade receivables were HK\$1.8 million, HK\$nil, and HK\$33.9 million, respectively. The fluctuation was mainly due to the decrease in trade receivables during the Technological Upgrade of the China Scivest

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**FINANCIAL INFORMATION**

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WTE Plant and the increase in trade receivables after the recommencement of its trial operation in July 2013. The significant increase in VAT recoverable as at 31 December 2013 as compared with 31 December 2012 was mainly resulted from the recognition of deductible input VAT related to the capital expenditure for equipment during the year ended 31 December 2013.

**Trade and other payables**

The table below sets out trade and other payables as at each of the balance sheet dates indicated:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	4,056	704	5,787
Accruals and other payables	12,409	59,620	142,297
Amount due to a shareholder	<u>182,697</u>	<u>75,020</u>	<u>—</u>
	<u>199,162</u>	<u>135,344</u>	<u>148,084</u>

Trade payables were primarily related to the purchase of coal and other fuels and other materials consumed for the WTE operations during the three years ended 31 December 2013. The fluctuation as at 31 December 2011, 2012 and 2013 was mainly resulted from the suspension of operations for the Technological Upgrade in 2011.

Accruals and other payables mainly represent payables for the construction works and the purchase of machineries for the Technological Upgrade of the China Scivest WTE Plant as at 31 December 2011, 2012 and 2013.

Amount due to a shareholder as at 31 December 2011 and 2012 represented the amount due to Mr. KL Lee, which were unsecured, interest free and repayable on demand. The amount decreased by HK\$107.7 million in 2012 as compared to 2011 was due to repayment. The amount was fully waived during the year ended 31 December 2013.

**Borrowings**

The table below sets out bank borrowings as at each of the balance sheet dates indicated:

Bank borrowings are analysed as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Portion of term loans due for repayment after one year which contain a repayment on demand clause - secured and dominated in RMB	<u>320,710</u>	<u>648,702</u>	<u>756,140</u>



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**FINANCIAL INFORMATION**

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The following table sets out the range of interest rates for the bank borrowings as at each of the balance sheet dates indicated:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Bank borrowings - secured	<u>6.15%-6.55%</u>	<u>6.15%-6.55%</u>	<u>6.15%-6.55%</u>

Swift Ample Business have principally relied on long-term borrowings to finance a large portion of capital requirements for the development and the Technological Upgrade of the China Scivest WTE Plant. Swift Ample Business’ bank borrowings consisted of the portion of term loans that were due for repayment after one year with a repayment on demand clause as at 31 December 2011, 2012 and 2013. Accordingly, all such borrowings were classified as current liabilities.

In June 2014, Swift Ample Business successfully obtained waiver from the relevant bank to remove the repayment on demand clause on the term loans. Accordingly, term loans due for repayment after one year are classified as non-current liabilities of our consolidated balance sheet of our Group.

Bank borrowings were secured by the concession right of China Scivest as at 31 December 2011, 2012 and 2013. They were also secured by corporate guarantee provided by Kewei and land use right and corporate guarantee provided by Eco-Tech as at 31 December 2012 (2011: corporate guarantees by Kewei and Eco-Tech only) for a fee of HK\$273,000, HK\$548,000 and HK\$278,000 during the years ended 31 December 2011, 2012 and 2013, respectively. Land use right pledge and all corporate guarantees were released during the year ended 31 December 2013.

**FUTURE PLANS AND [REDACTED]**

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**FUTURE PLANS**

We will expand our WTE business mainly through either developing greenfield projects or pursuing acquisitions. For greenfield projects, we give priority to regions which fulfil certain criteria such as: (i) no well-established WTE plants or fierce competition for WTE business in those regions; (ii) current or robust demand for waste treatment services in those regions; and (iii) the daily MSW processing capacity of new projects would be at least 1,000 tonnes. For acquisitions, we plan to acquire WTE plants that are currently adopting fluidised bed incineration technology, being poorly managed, lacking technical expertise and/or having low operational efficiency. After we acquire such WTE plants, we will aim to upgrade them by leveraging on our technical know-how and our management experience, and operate them with the same high operational standards as our existing plants. To realise our plans, we have a designated team which maintains regular contact with the government authorities to explore new development opportunities and manage to keep ourselves abreast of the development of the WTE market so as to identify appropriate greenfield projects and acquisition targets. We will actively pursue business opportunities which are commercially viable and attractive.

Please refer to the section headed “Business — Business strategies” in this [Redacted] for a detailed description of our future plans.

[Redacted]

**FUTURE PLANS AND [REDACTED]**

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[Redacted]

**UNDERWRITING**

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**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[Redacted]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[Redacted]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[Redacted]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[Redacted]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

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[Redacted]

**HOW TO APPLY FOR THE [REDACTED]**

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[Redacted]

**HOW TO APPLY FOR THE [REDACTED]**

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[Redacted]

**HOW TO APPLY FOR THE [REDACTED]**

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[Redacted]



**HOW TO APPLY FOR THE [REDACTED]**

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[Redacted]



**HOW TO APPLY FOR THE [REDACTED]**

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**HOW TO APPLY FOR THE [REDACTED]**

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**HOW TO APPLY FOR THE [REDACTED]**

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**HOW TO APPLY FOR THE [REDACTED]**

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[Redacted]



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**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

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*The following is the text of a report received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.*

[DRAFT]

[Date]

The Directors  
Canvest Environmental Protection Group Company Limited

China Merchants Securities (HK) Co., Limited

Dear Sirs,

We report on the financial information of Canvest Environmental Protection Group Company Limited (the “Company”) and its subsidiaries (together, the “Group”), which comprises the consolidated balance sheets as at 31 December 2011, 2012, 2013 and 30 June 2014, the balance sheet of the Company as at 30 June 2014, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to V below for inclusion in Appendix I to the [Redacted] of the Company dated [Date] (the “[Redacted]”) in connection with the initial [Redacted] of shares of the Company on the [Redacted].

The Company was incorporated in the Cayman Islands on 28 January 2014 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed “History and group reorganisation” below, which was completed on 19 May 2014, the Company became the holding company of the subsidiaries now comprising the Group (the “Reorganisation”).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies.

No audited financial statements have been prepared by the Company as it is newly incorporated and it has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

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**APPENDIX I****ACCOUNTANT’S REPORT OF THE GROUP**

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The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

**Directors’ Responsibility for the Financial Information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

**Reporting Accountant’s Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

**Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 30 June 2014 and of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 and of the Group’s results and cash flows for the Relevant Periods then ended.

**Review of stub period comparative financial information**

We have reviewed the stub period financial information set out in Sections I to II below included in Appendix I to the [Redacted] which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2013, and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

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**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

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The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

**I FINANCIAL INFORMATION OF THE GROUP**

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, and for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014 (the “Financial Information”):

**CONSOLIDATED INCOME STATEMENTS**

		<b>Six months ended</b>				
		<b>Year ended 31 December</b>			<b>30 June</b>	
	<i>Note</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
		<i>(Unaudited)</i>				
Revenue	5	154,470	387,134	390,173	194,509	313,270
Cost of sales	6	<u>(59,474)</u>	<u>(180,367)</u>	<u>(187,537)</u>	<u>(85,711)</u>	<u>(148,039)</u>
<b>Gross profit</b>		94,996	206,767	202,636	108,798	165,231
General and administrative expenses	6	(16,878)	(35,147)	(41,739)	(18,976)	(38,513)
Other income	7	2,585	13,698	14,039	7,479	35,318
Other loss, net	8	<u>(2,016)</u>	<u>(808)</u>	<u>(725)</u>	<u>(311)</u>	<u>(773)</u>
<b>Operating profit</b>		78,687	184,510	174,211	96,990	161,263
Interest income	11	85	264	908	427	1,616
Interest expense	11	<u>(25,105)</u>	<u>(31,839)</u>	<u>(26,769)</u>	<u>(14,002)</u>	<u>(34,597)</u>
Interest expense, net		<u>(25,020)</u>	<u>(31,575)</u>	<u>(25,861)</u>	<u>(13,575)</u>	<u>(32,981)</u>
<b>Profit before income tax</b>		53,667	152,935	148,350	83,415	128,282
Income tax expense	12	<u>(11,144)</u>	<u>(26,395)</u>	<u>(17,381)</u>	<u>(9,938)</u>	<u>(11,517)</u>
<b>Profit for the year/period</b>		<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>
<b>Attributable to:</b>						
Equity holders of the Company		38,743	126,540	130,969	73,477	115,890
Non-controlling interests		<u>3,780</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>875</u>
		<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>
<b>Earnings per share</b>						
- basic and diluted (expressed in HK\$ per share)	13	<u>34</u>	<u>110</u>	<u>114</u>	<u>64</u>	<u>101</u>

*Note:* The earnings per share as presented above has not taken into account the proposed [Redacted] pursuant to the shareholders’ resolution dated [●] because the proposed [Redacted] has not become effective as of the date of this report.

APPENDIX I

ACCOUNTANT’S REPORT OF THE GROUP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
<b>Profit for the year/period</b>	<u>42,523</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>116,765</u>
<b>Other comprehensive income/(loss):</b>					
<b>Items that have been reclassified or may be subsequently reclassified to profit or loss</b>					
Currency translation differences	10,681	(86)	19,804	10,263	(9,056)
Fair value gain on revaluation of available-for-sale financial assets	—	—	203	—	—
Realisation of revaluation reserve upon disposal of available-for-sale financial assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(203)</u>
<b>Other comprehensive income/(loss) for the year/period, net of tax</b>	<u>10,681</u>	<u>(86)</u>	<u>20,007</u>	<u>10,263</u>	<u>(9,259)</u>
<b>Total comprehensive income for the year/period</b>	<u><u>53,204</u></u>	<u><u>126,454</u></u>	<u><u>150,976</u></u>	<u><u>83,740</u></u>	<u><u>107,506</u></u>
Attributable to:					
Equity holders of the Company	46,394	126,454	149,672	83,549	107,453
Non-controlling interests	<u>6,810</u>	<u>—</u>	<u>1,304</u>	<u>191</u>	<u>53</u>
<b>Total comprehensive income for the year/period</b>	<u><u>53,204</u></u>	<u><u>126,454</u></u>	<u><u>150,976</u></u>	<u><u>83,740</u></u>	<u><u>107,506</u></u>

**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

**CONSOLIDATED BALANCE SHEETS**

		As at 31 December			As at
	Note	2011	2012	2013	30 June
		HK\$'000	HK\$'000	HK\$'000	2014
					HK\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Land use rights	15	173,158	169,320	170,696	168,000
Property, plant and equipment	16	526,475	490,380	472,428	444,693
Intangible assets	17	175,427	175,394	180,886	1,170,621
Deposits and prepayments	21	8,626	14,324	27,312	48,750
Gross amount due from a customer for contract work	18	—	—	—	7,003
		<u>883,686</u>	<u>849,418</u>	<u>851,322</u>	<u>1,839,067</u>
<b>Current assets</b>					
Inventories	20	2,420	2,532	1,579	272
Trade receivables	21	63,009	78,770	68,273	78,648
Deposits, prepayments and other receivables	21	8,498	13,300	90,081	26,255
Available-for-sale financial assets	22	—	—	45,991	—
Income tax recoverable		—	—	—	1,207
Restricted deposits	23	—	—	6,360	6,299
Short-term bank deposits	24	—	—	127,189	125,976
Cash and cash equivalents	25	56,298	44,680	49,803	393,856
		<u>130,225</u>	<u>139,282</u>	<u>389,276</u>	<u>632,513</u>
<b>Total assets</b>		<u>1,013,911</u>	<u>988,700</u>	<u>1,240,598</u>	<u>2,471,580</u>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	26	—	—	—	12
Reserves		<u>102,399</u>	<u>228,853</u>	<u>675,947</u>	<u>1,127,881</u>
		102,399	228,853	675,947	1,127,893
Non-controlling interests		—	—	85,853	85,906
<b>Total equity</b>		<u>102,399</u>	<u>228,853</u>	<u>761,800</u>	<u>1,213,799</u>

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**ACCOUNTANT’S REPORT OF THE GROUP**

		As at 31 December			As at
	Note	2011	2012	2013	30 June
		HK\$'000	HK\$'000	HK\$'000	2014
					HK\$'000
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	27	399,346	323,734	293,807	842,152
Deferred government grants	7	1,295	754	84	77
Deferred income tax liabilities	19	24,421	42,578	30,573	95,073
Other non-current liabilities		—	—	—	1,180
		<u>425,062</u>	<u>367,066</u>	<u>324,464</u>	<u>938,482</u>
<b>Current liabilities</b>					
Trade and other payables	28	387,298	243,248	63,562	132,718
Borrowings	27	95,596	147,993	87,760	178,886
Current income tax liabilities		<u>3,556</u>	<u>1,540</u>	<u>3,012</u>	<u>7,695</u>
		<u>486,450</u>	<u>392,781</u>	<u>154,334</u>	<u>319,299</u>
<b>Total liabilities</b>		<u>911,512</u>	<u>759,847</u>	<u>478,798</u>	<u>1,257,781</u>
<b>Total equity and liabilities</b>		<u>1,013,911</u>	<u>988,700</u>	<u>1,240,598</u>	<u>2,471,580</u>
<b>Net current (liabilities)/assets</b>		<u>(356,225)</u>	<u>(253,499)</u>	<u>234,942</u>	<u>313,214</u>
<b>Total assets less current liabilities</b>		<u>527,461</u>	<u>595,919</u>	<u>1,086,264</u>	<u>2,152,281</u>

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**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

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**BALANCE SHEET**

	<i>Note</i>	<b>As at 30 June 2014 HK\$'000</b>
<b>ASSETS</b>		
<b>Non-current asset</b>		
Interest in a subsidiary	14	1,055,526
<b>Current asset</b>		
Amount due from a subsidiary	34(b)	<u>11</u>
<b>Total assets</b>		<u><u>1,055,537</u></u>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	26	12
Reserve	26	<u>1,055,525</u>
<b>Total equity</b>		<u><u>1,055,537</u></u>
Net current assets		<u><u>11</u></u>



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ACCOUNTANT’S REPORT OF THE GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to equity holders of the Company									
		Share capital	Capital reserve	Statutory reserve	Other reserves	Available-for-sale financial assets revaluation reserve	Exchange reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)
<b>Balance at 1 January 2011</b>		—	—	—	—	—	(5,541)	(9,592)	(15,133)	53,142	38,009
<b>Comprehensive income</b>											
Profit for the year		—	—	—	—	—	—	38,743	38,743	3,780	42,523
<b>Other comprehensive income</b>											
Currency translation differences		—	—	—	—	—	7,651	—	7,651	3,030	10,681
<b>Total comprehensive income for the year</b>											
		—	—	—	—	—	7,651	38,743	46,394	6,810	53,204
Acquisition of subsidiaries	30	—	63,041	—	—	—	—	—	63,041	93,432	156,473
Appropriation of statutory reserve		—	—	7,161	—	—	—	(7,161)	—	—	—
Dividends paid to non-controlling interests	31(a)	—	—	—	—	—	—	—	—	(39,480)	(39,480)
Acquisition of non-controlling interests	31(b)&(c)	—	—	—	8,097	—	—	—	8,097	(113,904)	(105,807)
<b>Balance at 31 December 2011</b>		—	63,041	7,161	8,097	—	2,110	21,990	102,399	—	102,399
<b>Balance at 1 January 2012</b>		—	63,041	7,161	8,097	—	2,110	21,990	102,399	—	102,399
<b>Comprehensive income</b>											
Profit for the year		—	—	—	—	—	—	126,540	126,540	—	126,540
<b>Other comprehensive loss</b>											
Currency translation differences		—	—	—	—	—	(86)	—	(86)	—	(86)
<b>Total comprehensive income for the year</b>											
Appropriation of statutory reserve		—	—	—	—	—	(86)	126,540	126,454	—	126,454
		—	—	15,690	—	—	—	(15,690)	—	—	—
<b>Balance at 31 December 2012</b>		—	63,041	22,851	8,097	—	2,024	132,840	228,853	—	228,853

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ACCOUNTANT’S REPORT OF THE GROUP

		Attributable to equity holders of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000	
		Share capital HK\$'000 (Note 26)	Capital reserve HK\$'000 (Note 26)	Statutory reserve HK\$'000 (Note 26)	Other reserves HK\$'000 (Note 26)	Available-for-sale financial assets revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000			Total HK\$'000
	<b>Balance at 1 January 2013</b>	—	63,041	22,851	8,097	—	2,024	132,840	228,853	—	228,853
	<b>Comprehensive income</b>										
	Profit for the year	—	—	—	—	—	—	130,969	130,969	—	130,969
	<b>Other comprehensive income</b>										
	Currency translation differences	—	—	—	—	—	18,500	—	18,500	1,304	19,804
	Fair value gain on revaluation of available-for-sale financial assets	—	—	—	—	203	—	—	203	—	203
	<b>Total comprehensive income for the year</b>	—	—	—	—	203	18,500	130,969	149,672	1,304	150,976
	Appropriation of statutory reserve	—	—	13,758	—	—	—	(13,758)	—	—	—
	Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	84,549	84,549
	Deemed contribution from a shareholder	—	297,422	—	—	—	—	—	297,422	—	297,422
	<b>Balance at 31 December 2013</b>	—	360,463	36,609	8,097	203	20,524	250,051	675,947	85,853	761,800

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ACCOUNTANT’S REPORT OF THE GROUP

		Attributable to equity holders of the Company							Total equity HK\$'000		
		Share capital HK\$'000 (Note 26)	Capital reserve HK\$'000 (Note 26)	Statutory reserve HK\$'000 (Note 26)	Other reserves HK\$'000 (Note 26)	Available- for-sale financial assets revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000		Total HK\$'000	Non- controlling interests HK\$'000
<b>(Unaudited)</b>											
<b>Balance at 1 January 2013</b>		—	63,041	22,851	8,097	—	2,024	132,840	228,853	—	228,853
<b>Comprehensive income</b>											
Profit for the period		—	—	—	—	—	—	73,477	73,477	—	73,477
<b>Other comprehensive income</b>											
Currency translation differences		—	—	—	—	—	10,072	—	10,072	191	10,263
<b>Total comprehensive income for the period</b>		—	—	—	—	—	10,072	73,477	83,549	191	83,740
Appropriation of statutory reserve		—	—	7,553	—	—	—	(7,553)	—	—	—
Capital injection from non-controlling interests		—	—	—	—	—	—	—	—	84,549	84,549
Deemed contribution from a shareholder		—	297,422	—	—	—	—	—	297,422	—	297,422
<b>Balance at 30 June 2013</b>		—	360,463	30,404	8,097	—	12,096	198,764	609,824	84,740	694,564

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ACCOUNTANT’S REPORT OF THE GROUP

		Attributable to equity holders of the Company									
		Share capital HK\$'000 (Note 26)	Capital reserve HK\$'000 (Note 26)	Statutory reserve HK\$'000 (Note 26)	Other reserves HK\$'000 (Note 26)	Available- for-sale financial assets revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	<b>Balance at 1 January 2014</b>	—	360,463	36,609	8,097	203	20,524	250,051	675,947	85,853	761,800
	<b>Comprehensive income</b>										
	Profit for the period	—	—	—	—	—	—	115,890	115,890	875	116,765
	<b>Other comprehensive income</b>										
	Currency translation differences	—	—	—	—	—	(8,234)	—	(8,234)	(822)	(9,056)
	Realisation of revaluation reserve upon disposal of available-for-sale financial assets	—	—	—	—	(203)	—	—	(203)	—	(203)
	<b>Total comprehensive income for the period</b>	—	—	—	—	(203)	(8,234)	115,890	107,453	53	107,506
	Appropriation of statutory reserve	—	—	7,764	—	—	—	(7,764)	—	—	—
	Issuance of ordinary shares	12	—	—	—	—	—	—	12	—	12
	Deemed contribution from the immediate holding company	—	344,481	—	—	—	—	—	344,481	—	344,481
	<b>Balance at 30 June 2014</b>	12	704,944	44,373	8,097	—	12,290	358,177	1,127,893	85,906	1,213,799

**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>Note</i>	Year ended 31 December		Six months ended		
		2011	2012	2013	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
<b>Cash flows from operating activities</b>						
Cash generated from operations	29	76,213	214,299	249,840	112,082	157,383
Withholding tax paid		—	—	(21,859)	(21,859)	—
Income tax paid		—	(10,248)	(7,255)	(4,148)	(7,609)
Net cash generated from operating activities		<u>76,213</u>	<u>204,051</u>	<u>220,726</u>	<u>86,075</u>	<u>149,774</u>
<b>Cash flows from investing activities</b>						
Acquisition of subsidiaries, net of cash acquired	30	26,048	(15,834)	—	—	(113,190)
Purchase of property, plant and equipment		(121,927)	(34,125)	(33,487)	(10,543)	(29,724)
Proceeds from disposals of property, plant and equipment	29	—	—	—	—	6,875
Payments for land use rights		—	—	—	—	(3,876)
Purchase of available-for-sale financial assets		—	—	(45,093)	—	—
Proceeds from disposal of available-for-sale financial assets		—	—	—	—	44,461
Increase in restricted deposits		—	—	(6,166)	(6,166)	—
Increase in short-term bank deposits		—	—	(125,259)	(161,759)	—
Interest received		<u>85</u>	<u>264</u>	<u>908</u>	<u>427</u>	<u>1,616</u>
Net cash used in investing activities		<u>(95,794)</u>	<u>(49,695)</u>	<u>(209,097)</u>	<u>(178,041)</u>	<u>(93,838)</u>

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ACCOUNTANT’S REPORT OF THE GROUP

	Note	Six months ended				
		Year ended 31 December			30 June	
		2011	2012	2013	2013	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>(Unaudited)</i>						
<b>Cash flows from financing activities</b>						
Acquisition of non-controlling interests	31	—	(106,848)	—	—	—
Proceeds from borrowings		84,301	—	—	—	—
Repayments of borrowings		(24,691)	(23,124)	(103,340)	(23,331)	(106,655)
Interest paid		(25,105)	(31,839)	(26,769)	(14,002)	(34,597)
Advance from related parties	34(b)	205,432	108,066	125,284	119,905	—
Repayment (to)/from related parties	34(b)	(202,322)	(112,239)	(87,682)	—	86,115
Issuance of ordinary shares		—	—	—	—	12
Capital injection from the immediate holding company	34(b)	—	—	—	—	344,481
Capital injection from non-controlling interests		—	—	84,549	84,549	—
Net cash generated from/(used in) financing activities		<u>37,615</u>	<u>(165,984)</u>	<u>(7,958)</u>	<u>167,121</u>	<u>289,356</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		18,034	(11,628)	3,671	75,155	345,292
Cash and cash equivalents at beginning of year/period		37,262	56,298	44,680	44,680	49,803
Currency translation differences		<u>1,002</u>	<u>10</u>	<u>1,452</u>	<u>2,147</u>	<u>(1,239)</u>
<b>Cash and cash equivalents at end of year/period</b>		<u><u>56,298</u></u>	<u><u>44,680</u></u>	<u><u>49,803</u></u>	<u><u>121,982</u></u>	<u><u>393,856</u></u>

II NOTES TO THE FINANCIAL INFORMATION

1 General information, history and group reorganisation and basis of presentation

1.1 *General information*

The Company was incorporated in the Cayman Islands on 28 January 2014 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time. The address of its registered office is P.O. Box 309, Uglund House, Grand Cayman, KY1 — 1104, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants (the “[Redacted] Business”). Prior to the completion of the reorganisation as described in Note 1.2 below (the “Reorganisation”), the [Redacted] Business was principally operated through Dongguan Eco-Tech Environmental Power Company Limited (“Eco-Tech”) and Dongguan Kewei Environmental Power Company Limited (“Kewei”) and such [Redacted] Business was ultimately controlled by Mr. Lai Kin Man (“Mr. KM Lai”) throughout the Relevant Periods, or since the respective dates of incorporation/establishment of the subsidiaries within the Group, or since the date when the subsidiaries within the Group first came under the control of Mr. KM Lai, whichever is later.

The Financial Information is presented in unit of Hong Kong dollars (“HK\$”), unless otherwise stated.

1.2 *History and group reorganisation*

*History*

- (i) Kewei was established on 13 February 2009, which was wholly owned by Dongguan Canvest Industrial Investments Limited (“Canvest Investments”, now known as Guangdong Canvest Investments Company Limited) for which Canvest Investments was ultimately owned as to 70% by Mr. KM Lai and 30% by Dongguan Shunxing Petrochemical Company Limited (“Shunxing Petro”), a company which was beneficially wholly owned by Mr. KM Lai’s mother. Pursuant to an agreement dated 12 August 2011, Canvest Investments transferred 100% equity interest in Kewei to World Prosperous Investments Limited (“World Prosperous”), which was wholly owned by Mr. KM Lai. Such transfer was completed on 12 October 2011. Pursuant to an agreement dated 22 August 2011, Mr. KM Lai who then held 70% equity interest in Canvest Investments, agreed to acquire the remaining 30% equity interest in Canvest Investments from Shunxing Petro. Such transfer was completed on 24 August 2011. Accordingly, Mr. KM Lai effectively further acquired a 30% equity interest in Kewei at a consideration of Renminbi (“RMB”) 48,000,000 (equivalent to HK\$58,729,000) (Note 31(c)). Since then, Kewei was wholly owned by Mr. KM Lai through World Prosperous.

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**ACCOUNTANT’S REPORT OF THE GROUP**

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- (ii) Pursuant to an agreement dated 15 July 2011, Mr. KM Lai acquired 100% equity interest in Worldtron Limited (“Worldtron”) which indirectly held 40% equity interest in Eco-Tech at a consideration of RMB192,000,000 (equivalent to HK\$235,757,000). Such acquisition was completed on 17 October 2011. Before such transaction, Mr. KM Lai had 15% beneficial interest in Eco-Tech. Since then, Eco-Tech became a non-wholly owned subsidiary comprising the Group and was ultimately owned as to 55% by Mr. KM Lai. Such acquisition was accounted for using acquisition method of accounting (see Note 30(a)).
- (iii) On 15 November 2011, World Honour International Limited (“World Honour”) which was wholly owned by Mr. KM Lai, entered into equity transfer agreements with the remaining shareholders of Eco-Tech namely, Dongguan City Hengli Town Real Estate Development Corporation (“Hengli Real Estate”) and Mr. Zhu Jianbin at a total consideration of RMB38,340,000 (equivalent to HK\$47,078,000) (Note 31(b)).
- (iv) On 20 December 2011, Mr. KM Lai transferred 40% equity interest in Eco-tech from Worldtron to World Honour at a consideration of RMB24,000,000. Such transaction was merely a reorganisation of the [Redacted] Business with no change in management and ultimate owner of Eco-tech. Since then, Eco-tech was wholly owned by Mr. KM Lai through World Honour.
- (v) On 3 May 2012, Yi Feng Development Limited (“Yi Feng”) was incorporated as a limited liability company in the British Virgin Islands (the “BVI”) and was wholly owned by Mr. KM Lai. On 27 June 2012, the then holding company of World Honour and World Properous was transferred from Mr. KM Lai to Yi Feng. Such transaction was merely a reorganisation of the [Redacted] Business with no change in management and the ultimate owner of the [Redacted] Business remains the same.
- (vi) Pursuant to an agreement dated 29 June 2012, Mr. KM Lai transferred 45% equity interest in Yi Feng to Ms. Lee Wing Yee, Loretta (“Ms. Loretta Lee”), a related party, at a cash consideration of HK\$325,300,000. Since then, the [Redacted] Business was ultimately held by Mr. KM Lai and Ms. Loretta Lee with an equity interest of 55% and 45%, respectively.
- (vii) On 3 April 2013, Zhanjiang Yuefeng Environmental Power Company Limited (“Zhanjiang Yuefeng”) was established with an initial registered capital of RMB150,000,000 which was owned as to 20% by Eco-Tech, 35% by Kewei and 45% by an independent third party. Such contribution to the registered capital was in proportion to each of the shareholder’s respective shareholding in Zhanjiang Yuefeng.
- (viii) Pursuant to an agreement dated 30 December 2013, Yi Feng acquired the entire equity interest in Swift Ample Holdings Limited (“Swift Ample”) which holds China Green Power Holdings Limited (“China Green Power”) and its subsidiaries at a consideration of RMB100,000,000 (equivalent to HK\$127,190,000) (Note 30(b)). Such acquisition was completed on 1 January 2014.



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**ACCOUNTANT’S REPORT OF THE GROUP**

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*Reorganisation*

The Group underwent the following Reorganisation steps in preparation for the [Redacted] of the shares of the Company on the [Redacted]).

The Group underwent a series of transactions to transfer the companies engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants which were controlled by Mr. KM Lai, to the Company. Detailed procedures of the Reorganisation are as follows:

- (i) The Company was incorporated on 28 January 2014 which was ultimately owned as to 55% by Mr. KM Lai and 45% by Ms. Loretta Lee.
- (ii) On 10 February 2014, Yi Feng repurchased all of its shares from Mr. KM Lai and Ms. Loretta Lee at a nominal consideration of US\$55 and US\$45, respectively. On the same date, Yi Feng issued and allotted 100 fully paid shares to the Company at a consideration of US\$100. Upon completion of these transfers, Yi Feng became a wholly owned subsidiary of the Company.
- (iii) Eco-Tech (Cayman) Holdings Limited (“Eco-Tech Cayman”), Kewei (Cayman) Holdings Limited (“Kewei Cayman”) and China Scivest (Cayman) Holdings Limited (“China Scivest Cayman”) were all incorporated on 15 May 2014 and were wholly owned by Yi Feng.
- (iv) On 19 May 2014, 101 shares of World Honour were issued and allotted to Eco-Tech Cayman. On the same date, World Honour repurchased its shares from the then shareholder, Noble Value Investments Limited in cash consideration of HK\$101. Since then, World Honour became a wholly owned subsidiary of Eco-Tech Cayman.
- (v) On 19 May 2014, one share of World Prosperous was issued and allotted to Kewei Cayman. On the same date, World Prosperous repurchased its share from the then shareholder, Ample Forest Limited in cash consideration of HK\$1. Since then, World Prosperous became a wholly owned subsidiary of Kewei Cayman.
- (vi) On 19 May 2014, one share of China Green Power was issued and allotted to China Scivest Cayman. On the same date, China Green Power repurchased its shares from Swift Ample in cash consideration of HK\$1. Since then, China Green Power became a wholly owned subsidiary of China Scivest Cayman.

After the completion of the Reorganisation steps as described above, the Company became the holding company of the subsidiaries now comprising the Group.

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During the Relevant Periods and as of the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Company name	Country/place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Attributable equity interest of the Group					Principal activities/ place of operation	Statutory auditors		
			2011	2012	2013	2014	As at the date of this report		2011	2012	2013
			31 December	31 December	31 December	30 June	As at the date of this report				
<i>Directly owned:</i>											
Yi Feng Development Limited 億豐發展有限公司	BVI 3 May 2012	100 ordinary shares of US\$1 each	N/A	100%	100%	100%	100%	Investment holding/ Hong Kong	Note 2	Note 2	Note 2
<i>Indirectly owned:</i>											
Noble Value Investments Limited 珍豐投資有限公司	BVI 27 May 2011	1 ordinary share of US\$1 each	100%	100%	100%	100%	100%	Investment holding/ Hong Kong	Note 2	Note 2	Note 2
World Honour International Limited 世興國際有限公司	Hong Kong 30 June 1992	101 ordinary shares of HK\$1 each	100%	100%	100%	100%	100%	Investment holding/ Hong Kong	Mabel Chan & Co	Mabel Chan & Co	Mabel Chan & Co
Ample Forest Limited 豐森有限公司	BVI 21 June 2011	1 ordinary share of US\$1 each	100%	100%	100%	100%	100%	Investment holding/ Hong Kong	Note 2	Note 2	Note 2
Swift Ample Holdings Limited 沛豐控股有限公司	BVI 6 September 2011	1 ordinary share of US\$1 each	—	—	—	100%	100%	Investment holding/ Hong Kong	—	—	—
World Prosperous Investments Limited 世豐國際投資有限公司	Hong Kong 12 August 2011	1 ordinary share of HK\$1 each	100%	100%	100%	100%	100%	Investment holding/ Hong Kong	Mabel Chan & Co	Mabel Chan & Co	Mabel Chan & Co
Canvest Group Investments Limited 粵豐集團投資有限公司	Hong Kong 7 May 2012	1 ordinary share of HK\$1 each	N/A	100%	100%	100%	100%	Provision of human resources and administrative services/ Hong Kong	N/A	Mabel Chan & Co	Mabel Chan & Co
China Green Power Holdings Limited 中國綠色能源控股有限公司	Hong Kong 27 May 2004	1 ordinary share of HK\$1 each	—	—	—	100%	100%	Investment holding/ Hong Kong	—	—	—
Anabel Hong Kong Limited 安貝爾香港有限公司	Hong Kong 9 November 2006	1 ordinary share of HK\$1 each	—	—	—	100%	100%	Investment holding/ Hong Kong	—	—	—
Hong Tong Hai Investments Limited 泓通海投資有限公司	Hong Kong 17 April 2002	2 ordinary shares of HK\$1 each	—	—	—	100%	100%	Investment holding/ Hong Kong	—	—	—
China Scivest (Cayman) Holdings Limited	Cayman Islands 15 May 2014	1 ordinary share of HK\$1 each	N/A	N/A	N/A	100%	100%	Investment holding/ Hong Kong	N/A	N/A	N/A
Eco-Tech (Cayman) Holdings Limited	Cayman Islands 15 May 2014	101 ordinary shares of HK\$1 each	N/A	N/A	N/A	100%	100%	Investment holding/ Hong Kong	N/A	N/A	N/A
Kewei (Cayman) Holdings Limited	Cayman Islands 15 May 2014	1 ordinary share of HK\$1 each	N/A	N/A	N/A	100%	100%	Investment holding/ Hong Kong	N/A	N/A	N/A

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Company name	Country/place and date of incorporation/ establishment	Registered/ Issued and paid-up capital	Attributable equity interest of the Group					Principal activities/ place of operation	Statutory auditors		
			2011	31 December 2012	2013	30 June 2014	As at the date of this report		2011	2012	2013
Dongguan Eco-Tech Environmental Power Company Limited 東莞市科偉環保電力有限公司*	The People's Republic of China (the "PRC") 19 June 2003	RMB120,000,000 (Note 1)	100%	100%	100%	100%	100%	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants/the PRC	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所
Dongguan Kewei Environmental Power Company Limited 東莞市科維環保電力有限公司*	The PRC 13 February 2009	RMB160,000,000	100%	100%	100%	100%	100%	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants/the PRC	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所	Dongguan Xiecheng Certified Public Accountants 東莞市協誠會計師事務所
Dongguan China Scivest Environmental Power Company Limited 東莞中科環保電力有限公司*	The PRC 5 November 2004	RMB110,000,000	—	—	—	100%	100%	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants/the PRC	—	—	—
Zhanjiang Yuefeng Environmental Power Company Limited 湛江市粵豐環保電力有限公司*	The PRC 3 April 2013	RMB150,000,000	N/A	N/A	55%	55%	55%	Provision of municipal solid waste handling services and operation and management of waste-to-energy plants/the PRC	N/A	N/A	Zhanjiang Zhangxin Certified Public Accountants 湛江中安信會計師事務所
Dongguan Yuefeng Corporate Consultancy Management Company Limited 東莞粵豐企業諮詢管理有限公司*	The PRC 10 April 2014	RMB2,000,000	N/A	N/A	N/A	100%	100%	Inactive/the PRC	N/A	N/A	N/A

\* The English name of certain subsidiaries now comprising the Group referred to above represented the best efforts by management of the Company in translating their Chinese names as they do not have official English names.

Note 1: The registered share capital of Eco-Tech was increased from RMB60,000,000 to RMB120,000,000 on 10 July 2014. The newly increased share capital had been paid up in cash by World Honour on 28 July 2014.

Note 2: No audited financial statements have been prepared for Yi Feng, Noble Value Investments Limited and Ample Forest Limited, as it is not required to issue audited financial statements under the statutory requirements, the relevant rules and regulations in the BVI.

All entities have adopted 31 December as their financial year end date, except for World Prosperous, World Honour and Canvest Group Investments Limited, which have adopted 31 March as their financial year end date for statutory reporting purpose.

### **1.3 *Basis of presentation***

Immediately prior to and after the Reorganisation, the [Redacted] Business is controlled by Mr. KM Lai. The [Redacted] Business is conducted through Eco-Tech and Kewei which are ultimately controlled by Mr. KM Lai. Pursuant to the Reorganisation, the [Redacted] Business is transferred to and held by the Company. The Company and intermediate holding companies have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The transactions as described in Note 1.2 above are merely a reorganisation of the [Redacted] Business with no change in management and the controlling shareholder of the [Redacted] Business remains the same. Accordingly, the consolidated financial information of the Company and the [Redacted] Business is prepared in accordance with HKFRS 10, “Consolidated Financial Statements”, issued by the HKICPA, using the carrying values of the [Redacted] Business under Mr. KM Lai for all periods presented, or since the respective dates of incorporation/establishment of the subsidiaries within the Group, or since the date when the subsidiaries within the Group first came under the control of the Mr. KM Lai, whichever is later.

For companies acquired from or disposed of during each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, they are included in or excluded from the financial information of the Group from the date of the acquisition or disposal.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

## **2 *Summary of significant accounting policies***

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods presented, unless otherwise stated.

### **2.1 *Basis of preparation***

The principal accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention, as modified by available-for-sale financial assets, which are carried at fair values.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 of this section.

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A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these Financial Information. None of these is expected to have a significant effect on the Financial Information of the Group, except the following set out below:

HKFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the consolidated income statement, unless this creates an accounting mismatch.

HKFRS 15, “Revenue from contracts with customers”, establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an ‘earnings processes’ to an ‘asset-liability’ approach based on transfer of control. It provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. It replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition: HK(IFRIC) 13 Customer Loyalty Programmes, HK(IFRIC) 15 Agreements for the Construction of Real Estate, HK(IFRIC) 18 Transfers of Assets from Customers and HK(SIC)-31 Revenue - Barter Transactions Involving Advertising Services.

The Group is yet to assess HKFRS 9 and HKFRS 15’s full impact. The Group will also consider the impact of the remaining phases of HKFRS 9 and HKFRS 15 when completed by the Board.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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**2.2 Subsidiaries****2.2.1 Consolidation**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

**(a) Business combinations**

Except for the Reorganisation and business combination under common control, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries now comprising the Group have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(b) Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised in consideration or goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The consolidated statement of comprehensive income includes the results of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities, all intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

*2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for by the Company at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

*2.3 Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

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**2.4 Foreign currency translation***(i) Functional and presentation currency*

Items included in the Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company’s functional currency is HK\$, which is the Company’s and the Group’s presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

*(iii) Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

**2.5 Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.



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Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings (comprise mainly factories)	20-25 years
— Plant and machinery	10-15 years
— Motor vehicles	3-5 years
— Office and other equipment	3-5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises all direct costs of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

## **2.6 Land use rights**

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents up-front prepayments made for the rights to use the land.

Amortisation of land use rights is expensed in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

## **2.7 Intangible assets**

### **(a) Goodwill**

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred and the fair value of the non-controlling interest in the acquiree over the Group’s interest in the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. An impairment loss is recognised for the amount by which the carrying value of goodwill exceeds its recoverable amount. Any impairment is recognised immediately as an expense and is not subsequently reversed.

*(b) Concession right to build, own and transfer a waste-to-energy plant*

Concession right to build, own and transfer (“BOT” arrangement) a waste-to-energy plant has a finite useful life and is measured at cost less accumulated amortisation and impairment losses. Concession right acquired in a business combination is recognised at fair value at the acquisition date. Costs mainly comprise construction related costs and borrowing costs that are eligible for capitalisation and incurred before the waste-to-energy plant is ready for its intended use. When the concession right is ready for its intended use, amortisation is calculated using the straight-line method to allocate the cost of concession right over the concession period.

**2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

**2.9 Financial assets**

*2.9.1 Classification*

The Group classifies its financial assets as loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group’s loans and receivables comprise “gross amounts due from a customer for contract work”, “trade receivables”, “deposits and other receivables”, “restricted deposits”, “short-term bank deposits” and “cash and cash equivalents” in the consolidated balance sheet.

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Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the balance sheet date.

### *2.9.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### *2.10 Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### *2.11 Impairment of financial assets*

#### *(a) Assets carried at amortised cost*

The Group assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

*(b) Assets classified as available-for-sale*

The Group assesses at the balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

**2.12 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**2.13 Receivables**

*(a) Trade and other receivables*

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

*(b) Gross amount due from a customer for contract work*

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional right to receive cash or other financial asset for the construction services provided. Such financial assets are measured at fair value on initial recognition and classified as gross amount due from a customer for contract work. Subsequent to initial recognition, the financial assets are measured at amortised cost using the effective interest method.

#### **2.14 Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks with original maturities of three months or less.

#### **2.15 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### **2.16 Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **2.17 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

According to Hong Kong Interpretation 5, “Presentation of Financial Statements - Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause”, if a term loan agreement includes an overriding repayment on demand clause (“callable feature”), which gives the

lender a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion, a borrower shall classify the term loan as a current liability in its balance sheet, as the borrower does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### **2.18 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### **2.19 Current and deferred income tax**

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

##### Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time

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of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### Outside basis differences

Deferred income tax liability is provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **2.20 Construction contracts**

A construction contract is a contract specifically negotiated for the construction of an asset. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is initially recognised at its relative fair value.

#### **2.21 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for electricity supplied, provision of municipal solid waste treatment services and construction service for service concession arrangement, stated net of value added taxes.

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The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below.

*(i) Revenue from power sales*

Revenue arising from sales of electricity is recognised in the accounting period when electricity is generated and transmitted.

*(ii) Waste treatment fee*

Waste treatment fee is recognised in the accounting period in which the related services are rendered.

*(iii) Construction revenue from service concession arrangement*

The Group recognised construction revenue relating to service concession arrangement based on the percentage of completion method during the construction period. The stage of completion is measured by reference to the construction costs of the related infrastructure incurred as a percentage of the total estimated construction costs.

*(iv) Interest income*

Interest income is recognised using the effective interest method.

*(v) Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

**2.22 Employee benefits**

*(i) Pension obligations*

The subsidiaries now comprising the Group incorporated in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities.



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The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The subsidiaries now comprising the Group incorporated in Hong Kong participate in a mandatory provident fund scheme (“MPF Scheme”) for its employees in Hong Kong. MPF Scheme is a defined contribution scheme in accordance with the Mandatory Provident Fund Scheme Ordinance. Under the rules of MPF Scheme, the employer and its employees are required to contribute 5% of the employees’ salaries, up to a maximum of HK\$1,500 per employee per month starting from 1 June 2014. The assets of MPF Scheme are held separately from those of the subsidiaries now comprising the Group incorporated in Hong Kong in an independently administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

*(ii) Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**2.23 Borrowing costs**

General and specific borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of this asset, until such time as the asset is substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**2.24 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

**2.25 Dividend distribution**

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s and the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

### 3 Financial risk management and fair value measurements

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

#### 3.1 *Market risk*

##### (i) *Foreign exchange risk*

Since the subsidiaries now comprising the Group mainly operates in the PRC with transactions mainly settled in RMB, being the functional currency of the subsidiaries now comprising the Group, it is not exposed to significant foreign exchange risk.

##### (ii) *Credit risk*

The credit risk of the Group mainly arise from bank deposits and trade and other receivables. Majority of bank deposits are placed with reputable banks and financial institutions.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

The Group has concentration of credit risk. As at 31 December 2011, 2012 and 2013 and 30 June 2014, 46%, 30%, 45% and 29% of the total trade receivables was due from the Group’s largest customer, and 73%, 66%, 70% and 50% of the total trade receivables were due from the five largest customers, respectively.

The carrying values of these balances represent the Group’s maximum exposure to credit risk in relation to the financial statements.

##### (iii) *Liquidity risk*

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group’s objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group manages its liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as forecasting cash inflows and outflows due in day to day business. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls.

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Specifically, as at 31 December 2011 and 2012, for bank borrowings which contained a repayment on demand clause which could be exercised at the banks’ sole discretion, the balances had been classified as current liabilities. These loans will mature during the year ending 31 December 2014 and the related balances are classified as current liabilities as at 31 December 2013.

Analysed below is the Group’s contractual maturities for its non-derivative financial liabilities as at 31 December 2011, 2012 and 2013 and 30 June 2014. The amounts disclosed in the table are the contractual undiscounted cashflows.

**Group**

	<b>Within 1 year or on demand</b>	<b>More than 1 year but within 2 years</b>	<b>More than 2 years but within 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
At 31 December 2011					
Borrowings	130,948	98,705	255,365	114,608	599,626
Trade and other payables	380,630	—	—	—	380,630
	<u>511,578</u>	<u>98,705</u>	<u>255,365</u>	<u>114,608</u>	<u>980,256</u>
At 31 December 2012					
Borrowings	175,087	57,303	211,938	100,663	544,991
Trade and other payables	236,391	—	—	—	236,391
	<u>411,478</u>	<u>57,303</u>	<u>211,938</u>	<u>100,663</u>	<u>781,382</u>
At 31 December 2013					
Borrowings	107,095	139,848	182,542	—	429,485
Trade and other payables	56,082	—	—	—	56,082
	<u>163,177</u>	<u>139,848</u>	<u>182,542</u>	<u>—</u>	<u>485,567</u>
At 30 June 2014					
Borrowings	256,942	307,693	505,614	227,526	1,297,775
Trade and other payables	126,649	—	—	1,180	127,829
	<u>383,591</u>	<u>307,693</u>	<u>505,614</u>	<u>228,706</u>	<u>1,425,604</u>

*(iv) Interest rate risk*

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group’s interest rate risk arises primarily from bank borrowings. Bank borrowings bearing variable rates expose the Group to cash flow interest rate risk. The exposure to interest rates for the Group’s short term bank deposits is considered immaterial.

The Group does not have an interest rate hedging policy. However, the management monitors the Group’s interest rate exposure and will consider hedging significant exposure should the need arise.

During each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates of net variable rate instruments, with all other variables held constant, would have decreased/increased the Group’s profit after tax and retained earnings by approximately HK\$4,155,000, HK\$4,162,000, HK\$4,005,000, HK\$1,929,000 and HK\$7,597,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the balance sheet date and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments in existence at the balance sheet date.

**3.2 *Capital risk management***

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustment to it in light of changes in economic condition.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or to obtain bank and other borrowings.

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The Group monitors capital on the basis of the net debt to total capital ratio. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheets, plus net debt. The net debt to total capital ratios at 31 December 2011, 2012 and 2013 and 30 June 2014 were as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Total borrowings (Note 27)	494,942	471,727	381,567	1,021,038
Less: cash and cash equivalents (Note 25)	<u>(56,298)</u>	<u>(44,680)</u>	<u>(49,803)</u>	<u>(393,856)</u>
Net debt	438,644	427,047	331,764	627,182
Total equity	<u>102,399</u>	<u>228,853</u>	<u>761,800</u>	<u>1,213,799</u>
Total capital	<u>541,043</u>	<u>655,900</u>	<u>1,093,564</u>	<u>1,840,981</u>
Net debt to total capital ratio	<u>81%</u>	<u>65%</u>	<u>30%</u>	<u>34%</u>

**3.3 Fair value**

The management considered the carrying amounts of financial assets and liabilities approximated their fair values as at 31 December 2011, 2012 and 2013 and 30 June 2014. The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques.

The method by which the fair values of financial instruments are established are categorised as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data.

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The Group’s assets and liabilities that are measured at fair values at 31 December 2013:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Assets</b>				
Available-for-sale financial assets				
- unlisted investment securities	<u>—</u>	<u>45,991</u>	<u>—</u>	<u>45,991</u>

The fair value of financial instruments traded in active markets is based on quoted market price at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

**4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**4.1 Service concession arrangements**

The Group entered into BOT arrangements in respect of its waste-to-energy projects. Upon expiry of the concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. As disclosed in Note 2.21, revenue relating to construction services under such arrangement is recognised based on percentage of completion. The revenue and profit recognition on an incomplete project is dependent on estimating the final outcome of the construction contract as well as the work incurred at each balance sheet dates. Should the actual results be different from those estimated, this would affect the revenue and profit to be recognised in future periods.

**4.2 *Impairment of non-financial assets***

The Group reviews for impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections. Changing the assumptions selected by management in assessing impairment, including the discount rates, electricity tariff, waste treatment fees in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group’s financial condition and results of operations.

**4.3 *Estimated useful life of property, plant and equipment***

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

**4.4 *Current and deferred income tax***

The Group is subject to taxation in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

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**4.5 Purchase accounting**

Accounting for acquisitions require the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisitions of Worldtron Limited and Swift Ample (Note 30), the Group has undertaken a process to identify all assets and liabilities acquired, including acquired intangible assets. Judgements made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset’s useful lives, could materially impact the calculation of goodwill and depreciation and amortisation charges in subsequent periods. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of tangible and intangible assets acquired also requires judgement.

**5 Revenue and segment information**

The CODM has been identified as the Executive Directors of the Group. The Executive Directors review the Group’s internal reporting in order to assess performance and allocate resources. For each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, the Executive Directors consider that the Group’s operations are operated and managed as a single segment — waste-to-energy project construction and operation. No separate segment information was presented for the Relevant Periods.

The Group is mainly domiciled in the PRC. All of the Group’s revenue are generated in the PRC and most of its non-current assets are located in the PRC during the Relevant Periods.

An analysis of the Group’s revenue during the Relevant Periods is as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
				<i>(Unaudited)</i>	
Revenue from power sales	107,025	265,407	261,737	133,150	192,780
Waste treatment fee	47,445	121,727	128,436	61,359	105,635
Construction revenue	—	—	—	—	14,736
Finance income	—	—	—	—	119
	<u>154,470</u>	<u>387,134</u>	<u>390,173</u>	<u>194,509</u>	<u>313,270</u>



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Revenue from a customer of the corresponding years/periods contributing over 10% of the total turnover of the Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
				<i>(Unaudited)</i>	
Dongguan Power Supply Bureau	<u>107,025</u>	<u>265,407</u>	<u>261,737</u>	<u>133,150</u>	<u>192,780</u>

**6 Expenses by nature**

Expenses included in cost of sales and general and administrative expenses are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
				<i>(Unaudited)</i>	
Coal	9,147	63,261	56,209	28,795	19,460
Fuel	1,488	1,341	957	414	452
Maintenance cost	3,109	14,346	13,804	4,771	8,668
Environmental protection expenses	4,381	22,781	33,000	11,512	29,459
Auditor’s remuneration	27	360	108	80	96
Employee benefit expenses (Note 9)	14,039	39,799	45,324	20,583	36,756
Depreciation and amortisation					
- Land use rights (Note 15)	707	3,807	3,866	1,920	2,028
- Property, plant and equipment (Note 16)	28,257	40,397	42,060	20,768	17,925
- Intangible assets (Note 17)	—	—	—	—	32,669
Operating lease rentals	144	2,238	3,476	1,216	1,759
Provision for impairment of trade receivables (Note 21)	—	4,072	—	—	—
Construction cost recognised for construction of BOT projects (included in cost of sales)	—	—	—	—	12,280
[Redacted] expenses	<u>—</u>	<u>—</u>	<u>3,155</u>	<u>2,213</u>	<u>7,909</u>

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7 Other income

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Value-added tax refund (Note (a))	1,364	7,782	9,041	4,852	33,571
Government grants (Note (b))	231	1,978	733	395	7
Others	990	3,938	4,265	2,232	1,740
	2,585	13,698	14,039	7,479	35,318

*Note (a):* The amount represents the Group’s entitlement to value-added tax refund in accordance with the Notice of the Ministry of Finance and State Administration of Taxation on policies regarding the value-added tax on Comprehensive Utilisation of Resources and Other Products.

*Note (b):* For the years ended 31 December 2011 and 2012, HK\$1,403,000 and HK\$111,000 were received respectively from the PRC government as government grants for construction of property, plant and equipment. These subsidies are recognised in the consolidated income statements over the expected useful life of the property, plant and equipment. During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, HK\$108,000, HK\$652,000, HK\$670,000, HK\$395,000 and HK\$7,000 were recognised as other income, respectively.

In addition, the Group obtained government grants of HK\$123,000, HK\$1,326,000, HK\$63,000, HK\$nil and HK\$nil from the PRC government and recognised under other income as subsidies for operations of waste-to-energy projects for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively.

8 Other loss, net

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Exchange loss/(gain), net	2,016	806	707	311	(1,898)
Write-off/loss on disposals of property, plant and equipment	—	2	18	—	9,875
Reversal of provision (Note)	—	—	—	—	(7,204)
	2,016	808	725	311	773

*Note:* The amount represents reversal of provision as the actual provision amount paid related to the delay in obtaining certain land and construction-related certificates and permits for Eco-tech was less than the provision made prior to the Group’s acquisition.

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**9 Employee benefit expenses**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Wages and salaries	11,387	31,830	36,288	15,419	30,374
Pension costs — defined contribution plans	304	1,130	1,263	611	818
Welfare and other expenses	<u>2,348</u>	<u>6,839</u>	<u>7,773</u>	<u>4,553</u>	<u>5,564</u>
	<u>14,039</u>	<u>39,799</u>	<u>45,324</u>	<u>20,583</u>	<u>36,756</u>

**10 Emoluments for directors and senior management**

**(a) Directors’ and chief executive’s emoluments**

The aggregate amounts of emoluments paid/payable to the directors and the chief executive of the Company by the companies now comprising the Group during the Relevant Periods are as follows:

Year ended 31 December 2011	Directors’ Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employer’s contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors:</b>					
Ms. Loretta Lee	—	—	—	—	—
Mr. KM Lai	4	—	—	—	4
Mr. Yuan Guozhen	7	732	127	20	886
Mr. CT Lai	<u>4</u>	<u>382</u>	<u>111</u>	<u>16</u>	<u>513</u>
	<u>15</u>	<u>1,114</u>	<u>238</u>	<u>36</u>	<u>1,403</u>

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<b>Year ended 31 December 2012</b>	<b>Directors’ Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Employer’s contribution to pension scheme</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Executive directors:</b>					
Ms. Loretta Lee	—	200	—	5	205
Mr. KM Lai	4	—	—	—	4
Mr. Yuan Guozhen	7	854	175	25	1,061
Mr. CT Lai	4	1,168	183	38	1,393
	<u>15</u>	<u>2,222</u>	<u>358</u>	<u>68</u>	<u>2,663</u>

<b>Year ended 31 December 2013</b>	<b>Directors’ fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Employer’s contribution to pension scheme</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Executive directors:</b>					
Ms. Loretta Lee	—	615	33	15	663
Mr. KM Lai	4	—	—	—	4
Mr. Yuan Guozhen	7	882	186	29	1,104
Mr. CT Lai	4	1,429	226	44	1,703
	<u>15</u>	<u>2,926</u>	<u>445</u>	<u>88</u>	<u>3,474</u>

<b>Period ended 30 June 2013 (Unaudited)</b>	<b>Directors’ fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Employer’s contribution to pension scheme</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Executive directors:</b>					
Ms. Loretta Lee	300	33	—	8	341
Mr. KM Lai	—	—	—	—	—
Mr. Yuan Guozhen	—	335	45	13	393
Mr. CT Lai	300	343	45	21	709
	<u>600</u>	<u>711</u>	<u>90</u>	<u>42</u>	<u>1,443</u>

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Period ended 30 June 2014	Directors’ Fees <i>HK\$’000</i>	Salaries, allowances and benefits in kind <i>HK\$’000</i>	Discretionary bonuses <i>HK\$’000</i>	Employer’s contribution to pension scheme <i>HK\$’000</i>	Total <i>HK\$’000</i>
<b>Executive directors:</b>					
Ms. Loretta Lee	—	315	102	8	425
Mr. KM Lai	—	4	—	—	4
Mr. Yuan Guozhen	—	352	45	15	412
Mr. CT Lai	—	631	148	23	802
	—	1,302	295	46	1,643

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the Relevant Periods. No directors waived or agreed to waive any emoluments during the Relevant Periods.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group include 2, 2, 2, 3 and 3 for the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014 respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3, 3, 3, 2 and 2 individuals for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014 during the respective years/periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011 <i>HK\$’000</i>	2012 <i>HK\$’000</i>	2013 <i>HK\$’000</i>	2013 <i>HK\$’000</i>	2014 <i>HK\$’000</i>
				<i>(Unaudited)</i>	
Wages and salaries	772	1,769	2,120	467	1,273
Pension costs - defined contribution plans	45	76	87	27	17
Welfare and other expenses	69	181	218	83	40

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The emoluments fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
HK\$nil - HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, neither directors nor other members of the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, to leave the Group or as compensation for loss of office.

**11 Interest income and expense**

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
<b>Interest expense:</b>					
Interest expense on borrowings					
- wholly repayable within five years	(16,233)	(22,168)	(26,769)	(14,002)	(10,148)
- wholly repayable over five years	<u>(8,872)</u>	<u>(9,671)</u>	<u>—</u>	<u>—</u>	<u>(24,449)</u>
	<u>(25,105)</u>	<u>(31,839)</u>	<u>(26,769)</u>	<u>(14,002)</u>	<u>(34,597)</u>
<b>Interest income:</b>					
Interest income from bank deposits	<u>85</u>	<u>264</u>	<u>908</u>	<u>427</u>	<u>1,616</u>
Interest expense, net	<u>(25,020)</u>	<u>(31,575)</u>	<u>(25,861)</u>	<u>(13,575)</u>	<u>(32,981)</u>

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12 Income tax expense

	Year ended 31 December			Six months ended 30 June	
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
				<i>(Unaudited)</i>	
<b>Current income tax</b>					
PRC enterprise income tax (“EIT”)	1,491	8,232	8,658	5,593	11,103
Hong Kong profits tax	—	—	—	—	—
<b>Total current income tax</b>	<u>1,491</u>	<u>8,232</u>	<u>8,658</u>	<u>5,593</u>	<u>11,103</u>
<b>Deferred income tax (Note 19)</b>	<u>9,653</u>	<u>18,163</u>	<u>(13,136)</u>	<u>(17,514)</u>	<u>414</u>
<b>Withholding tax</b>	<u>—</u>	<u>—</u>	<u>21,859</u>	<u>21,859</u>	<u>—</u>
<b>Income tax expense</b>	<u>11,144</u>	<u>26,395</u>	<u>17,381</u>	<u>9,938</u>	<u>11,517</u>

Dividends declared by PRC subsidiaries to parent companies incorporated outside PRC are subject to withholding tax of 10%. Withholding tax of the Group has been provided at a rate of 10% during the Relevant Periods.

The subsidiaries now comprising the Group incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014. No Hong Kong profits tax have been provided as the subsidiaries now comprising the Group incorporated in Hong Kong have no assessable profits during the Relevant Periods.

The subsidiaries now comprising the Group incorporated in the PRC are subjected to a tax rate of 25% for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014 on the assessable profits arising in or derived from the PRC except the followings:

- i) Kewei has obtained an approval for an EIT incentive that it was fully exempted from the PRC EIT tax for three years starting from 2011 to 2013 followed by a 50% tax reduction for the ensuing three years from 2014 to 2016. Accordingly, the applicable tax rate for Kewei was 0% for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and was 12.5% for the six months ended 30 June 2014.

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- ii) China Scivest has obtained an approval for an EIT incentive that its project will be fully exempted from the PRC EIT for three years starting from 2013 to 2015, followed by a 50% tax exemption for the ensuing three years from 2016 to 2018. Accordingly, the applicable tax rate of China Scivest was 0% for the six months ended 30 June 2014.

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise by weighted average tax rate applicable to profit of the subsidiaries now comprising the Group are as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(Unaudited)</i>				
Profit before income tax	<u>53,667</u>	<u>152,935</u>	<u>148,350</u>	<u>83,415</u>	<u>128,282</u>
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	13,667	38,604	37,939	21,258	22,168
Tax effect of:					
Expenses not deductible for tax purpose	2,641	10,075	10,357	4,926	1,886
Preferential tax concession	(13,393)	(31,881)	(30,939)	(16,270)	(12,537)
Recognition of deferred taxation arising from withholding tax on unremitted earnings of subsidiaries in the PRC	<u>8,229</u>	<u>9,597</u>	<u>24</u>	<u>24</u>	<u>—</u>
Income tax expense	<u>11,144</u>	<u>26,395</u>	<u>17,381</u>	<u>9,938</u>	<u>11,517</u>



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**13 Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares in issue during the Relevant Periods, 1,152,381 shares of the Company, which were resulted from the issue and allotment of 1,152,381 shares by the Company in connection with the Reorganisation, had been treated as if those shares were in issue since the beginning of the Relevant Periods.

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>(Unaudited)</i>				
Profit attributable to equity holders of the Company (HK\$’000)	<u>38,743</u>	<u>126,540</u>	<u>130,969</u>	<u>73,477</u>	<u>115,890</u>
Weighted average number of ordinary shares in issue	<u>1,152,381</u>	<u>1,152,381</u>	<u>1,152,381</u>	<u>1,152,381</u>	<u>1,152,381</u>
Basic and diluted earnings per share (HK\$)	<u>34</u>	<u>110</u>	<u>114</u>	<u>64</u>	<u>101</u>

The Company did not have any dilutive potential ordinary shares outstanding during the Relevant Periods. Diluted earnings per share is equal to the basic earnings per share.

The basic earnings per share and diluted earnings per share as presented on the consolidated income statements have not taken into account the proposed [Redacted] as described in Note 35.

**14 Interest in a subsidiary**

<b>Company</b>	<b>As at 30 June 2014</b>
	<i>HK\$’000</i>
Investment in Yi Feng pursuant to the Reorganisation (Note 1.2)	<u>1,055,526</u>

Unlisted investment in a subsidiary is stated at the carrying amount of the Company’s interest in the net assets value of the subsidiary at the date of the Reorganisation in February 2014 and the Company’s deemed contribution to the subsidiary.

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15 **Land use rights**

	<b>Land use rights</b> <i>HK\$’000</i>
At 1 January 2011	—
Acquisition of subsidiaries (Note 30(a))	173,078
Amortisation	(707)
Currency translation differences	<u>787</u>
At 31 December 2011	<u>173,158</u>
At 1 January 2012	173,158
Amortisation	(3,807)
Currency translation differences	<u>(31)</u>
At 31 December 2012	<u>169,320</u>
At 1 January 2013	169,320
Amortisation	(3,866)
Currency translation differences	<u>5,242</u>
At 31 December 2013	<u>170,696</u>
At 1 January 2013	169,320
Amortisation	(1,920)
Currency translation differences	<u>3,022</u>
At 30 June 2013 (Unaudited)	<u>170,422</u>
At 1 January 2014	170,696
Additions	953
Amortisation	(2,028)
Currency translation differences	<u>(1,621)</u>
At 30 June 2014	<u>168,000</u>

The Group’s land use rights represent prepaid operating lease payments which are analysed as follows:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>30 June</b>
				<b>2014</b>
Leases of between 10 to 50 years	<u>54,076</u>	<u>52,878</u>	<u>53,308</u>	<u>51,994</u>

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Remaining balances represent values of the right to operate Eco-tech under build-own-operate basis.

The Group had not yet obtained one of the land use certificate as at 31 December 2011, 2012 and 2013. The land use certificate was obtained on 13 March 2014.

Amortisation expense was charged in “cost of sales” in the consolidated income statements.

As at 30 June 2014, certain of the Group’s borrowings were secured by land use rights (Note 27).

**16 Property, plant and equipment**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office and other equipment</b>	<b>Construction in progress (“CIP”)</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>As at 1 January 2011</b>						
Cost	—	—	2,166	168	431,551	433,885
Accumulated depreciation	—	—	(1,661)	(42)	—	(1,703)
Net book amount	<u>—</u>	<u>—</u>	<u>505</u>	<u>126</u>	<u>431,551</u>	<u>432,182</u>
<b>Year ended 31 December 2011</b>						
Opening net book amount	—	—	505	126	431,551	432,182
Acquisition of subsidiaries (Note 30(a))	63,817	35,654	810	166	—	100,447
Additions	—	12	48	759	—	819
Transferred from CIP	121,890	309,661	—	—	(431,551)	—
Depreciation	(6,621)	(21,325)	(258)	(53)	—	(28,257)
Currency translation differences	6,196	15,045	20	23	—	21,284
Closing net book amount	<u>185,282</u>	<u>339,047</u>	<u>1,125</u>	<u>1,021</u>	<u>—</u>	<u>526,475</u>
<b>As at 31 December 2011</b>						
Cost	192,045	360,859	3,046	1,116	—	557,066
Accumulated depreciation	(6,763)	(21,812)	(1,921)	(95)	—	(30,591)
Net book amount	<u>185,282</u>	<u>339,047</u>	<u>1,125</u>	<u>1,021</u>	<u>—</u>	<u>526,475</u>

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	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office and other equipment <i>HK\$'000</i>	Construction in progress ("CIP") <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2012</b>						
Opening net book amount	185,282	339,047	1,125	1,021	—	526,475
Additions	2,374	802	111	1,111	—	4,398
Disposals	—	—	—	(2)	—	(2)
Depreciation	(11,197)	(28,563)	(321)	(316)	—	(40,397)
Currency translation differences	(34)	(60)	—	—	—	(94)
Closing net book amount	<u>176,425</u>	<u>311,226</u>	<u>915</u>	<u>1,814</u>	<u>—</u>	<u>490,380</u>
<b>As at 31 December 2012</b>						
Cost	194,383	361,593	3,157	2,207	—	561,340
Accumulated depreciation	<u>(17,958)</u>	<u>(50,367)</u>	<u>(2,242)</u>	<u>(393)</u>	<u>—</u>	<u>(70,960)</u>
Net book amount	<u>176,425</u>	<u>311,226</u>	<u>915</u>	<u>1,814</u>	<u>—</u>	<u>490,380</u>
<b>Year ended 31 December 2013</b>						
Opening net book amount	176,425	311,226	915	1,814	—	490,380
Additions	1,669	3,947	3,395	294	—	9,305
Disposals	—	(3)	(9)	(6)	—	(18)
Depreciation	(11,610)	(29,126)	(857)	(467)	—	(42,060)
Currency translation differences	<u>5,372</u>	<u>9,359</u>	<u>52</u>	<u>38</u>	<u>—</u>	<u>14,821</u>
Closing net book amount	<u>171,856</u>	<u>295,403</u>	<u>3,496</u>	<u>1,673</u>	<u>—</u>	<u>472,428</u>
<b>As at 31 December 2013</b>						
Cost	202,165	376,917	6,603	2,537	—	588,222
Accumulated depreciation	<u>(30,309)</u>	<u>(81,514)</u>	<u>(3,107)</u>	<u>(864)</u>	<u>—</u>	<u>(115,794)</u>
Net book amount	<u>171,856</u>	<u>295,403</u>	<u>3,496</u>	<u>1,673</u>	<u>—</u>	<u>472,428</u>
<b>Period ended 30 June 2013 (Unaudited)</b>						
Opening net book amount	176,425	311,226	915	1,814	—	490,380
Additions	961	968	1,780	130	—	3,839
Depreciation	(5,740)	(14,507)	(297)	(224)	—	(20,768)
Currency translation differences	<u>3,125</u>	<u>5,468</u>	<u>19</u>	<u>22</u>	<u>—</u>	<u>8,634</u>
Closing net book amount	<u>174,771</u>	<u>303,155</u>	<u>2,417</u>	<u>1,742</u>	<u>—</u>	<u>482,085</u>

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	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office and other equipment <i>HK\$'000</i>	Construction in progress (“CIP”) <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 30 June 2013 (Unaudited)</b>						
Cost	198,842	369,062	4,965	2,366	—	575,235
Accumulated depreciation	<u>(24,071)</u>	<u>(65,907)</u>	<u>(2,548)</u>	<u>(624)</u>	<u>—</u>	<u>(93,150)</u>
Net book amount	<u>174,771</u>	<u>303,155</u>	<u>2,417</u>	<u>1,742</u>	<u>—</u>	<u>482,085</u>
<b>Period ended 30 June 2014</b>						
Opening net book amount	171,856	295,403	3,496	1,673	—	472,428
Additions	1,276	—	184	992	5,985	8,437
Acquisition of subsidiaries (Note 30(b))	—	—	1,765	1,166	—	2,931
Write-off/disposals	(13,672)	(3,006)	(71)	(1)	—	(16,750)
Depreciation	(4,881)	(11,821)	(787)	(436)	—	(17,925)
Currency translation differences	<u>(1,583)</u>	<u>(2,770)</u>	<u>(31)</u>	<u>(25)</u>	<u>(19)</u>	<u>(4,428)</u>
Closing net book amount	<u>152,996</u>	<u>277,806</u>	<u>4,556</u>	<u>3,369</u>	<u>5,966</u>	<u>444,693</u>
<b>As at 30 June 2014</b>						
Cost	194,156	358,244	8,131	4,661	5,966	571,158
Accumulated depreciation	<u>(41,160)</u>	<u>(80,438)</u>	<u>(3,575)</u>	<u>(1,292)</u>	<u>—</u>	<u>(126,465)</u>
Net book amount	<u>152,996</u>	<u>277,806</u>	<u>4,556</u>	<u>3,369</u>	<u>5,966</u>	<u>444,693</u>

Depreciation expense was charged in the consolidated income statements as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales	27,949	39,760	40,921	20,262	15,860
General and administrative expenses	<u>308</u>	<u>637</u>	<u>1,139</u>	<u>506</u>	<u>2,065</u>
	<u>28,257</u>	<u>40,397</u>	<u>42,060</u>	<u>20,768</u>	<u>17,925</u>

As at 31 December 2011, 2012 and 2013 and 30 June 2014, certain of the Group’s borrowings were secured by certain property, plant and equipment of the Group with an aggregate net book value of HK\$302,227,000, HK\$281,792,000, HK\$269,547,000, and HK\$431,313,000, respectively (Note 27).

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17 **Intangible assets**

	<b>Goodwill</b>	<b>Concession</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>rights</i>	<i>HK\$’000</i>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Year ended 31 December 2011</b>			
Opening net book amount	—	—	—
Acquisition of subsidiaries (Note 30(a))	174,495	—	174,495
Currency translation differences	<u>932</u>	<u>—</u>	<u>932</u>
Closing net amount	<u>175,427</u>	<u>—</u>	<u>175,427</u>
<b>As at 31 December 2011</b>			
Cost	175,427	—	175,427
Accumulated amortisation	<u>—</u>	<u>—</u>	<u>—</u>
Net book amount	<u>175,427</u>	<u>—</u>	<u>175,427</u>
<b>Year ended 31 December 2012</b>			
Opening net book amount	175,427	—	175,427
Currency translation differences	<u>(33)</u>	<u>—</u>	<u>(33)</u>
Closing net amount	<u>175,394</u>	<u>—</u>	<u>175,394</u>
<b>As at 31 December 2012</b>			
Cost	175,394	—	175,394
Accumulated amortisation	<u>—</u>	<u>—</u>	<u>—</u>
Net book amount	<u>175,394</u>	<u>—</u>	<u>175,394</u>
<b>Year ended 31 December 2013</b>			
Opening net book amount	175,394	—	175,394
Currency translation differences	<u>5,492</u>	<u>—</u>	<u>5,492</u>
Closing net amount	<u>180,886</u>	<u>—</u>	<u>180,886</u>

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	<b>Goodwill</b>	<b>Concession</b>	<b>Total</b>
	<i>HK\$’000</i>	<i>rights</i>	<i>HK\$’000</i>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>As at 31 December 2013</b>			
Cost	180,886	—	180,886
Accumulated amortisation	—	—	—
Net book amount	<u>180,886</u>	<u>—</u>	<u>180,886</u>
<b>Period ended 30 June 2013 (Unaudited)</b>			
Opening net book amount	175,394	—	175,394
Currency translation differences	<u>3,149</u>	<u>—</u>	<u>3,149</u>
Closing net amount	<u>178,543</u>	<u>—</u>	<u>178,543</u>
<b>As at 30 June 2013 (Unaudited)</b>			
Cost	178,543	—	178,543
Accumulated amortisation	—	—	—
Net book amount	<u>178,543</u>	<u>—</u>	<u>178,543</u>
<b>Period ended 30 June 2014</b>			
Opening net book amount	180,886	—	180,886
Acquisition of subsidiaries (Note 30(b))	—	1,025,998	1,025,998
Additions	—	7,829	7,829
Amortisation	—	(32,669)	(32,669)
Currency translation differences	<u>(1,725)</u>	<u>(9,698)</u>	<u>(11,423)</u>
Closing net amount	<u>179,161</u>	<u>991,460</u>	<u>1,170,621</u>
<b>As at 30 June 2014</b>			
Cost	179,161	1,024,022	1,203,183
Accumulated amortisation	—	<u>(32,562)</u>	<u>(32,562)</u>
Net book amount	<u>179,161</u>	<u>991,460</u>	<u>1,170,621</u>

Goodwill is attributable to the acquisition of Eco-Tech (Note 30(a)).

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a 5-year period from the date of acquisition. Cash flows beyond the 5-year period are expected to be similar to that of the 5th year based on the then existing production capacity, taking into account of the expected remaining useful lives of the relevant underlying operating assets.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Management prepared the financial budgets taking into account actual and prior year performance and market development expectations. The pre-tax discount rate used for value-in-use calculations for goodwill is 9.5% for each of the years ended 31 December 2011, 2012 and 2013 and the period ended 30 June 2014. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the cash-generating units. The key assumptions used in calculating the recoverable amount of the CGU on completion of the acquisition, using the discounted cash flow method, include electricity generation capacity, waste treatment capacity, electricity tariff per kWh and waste treatment fee per tonne.

Concession rights are mainly attributable to the acquisition of China Scivest (Note 30(b)) and amortisation expenses were charged to “cost of sales” in the consolidated income statements.

**18 Gross amount due from a customer for contract work**

A subsidiary of the Group entered into a service concession arrangement with the local government authority in the PRC (the “grantor”). Pursuant to the service concession arrangements, the Group has to design, construct and operate and manage waste-to-energy projects in the PRC for a period of 28 years. The grantor guarantees that the Group will receive minimum annual payments under the service concession arrangement. Upon expiry of the concession periods, the waste-to-energy power plants and the related facilities will be transferred to the local government authority. Revenue relating to the construction service provided under service concession arrangements is recognised on gross amount due from a customer for contract work and intangible assets according to the accounting policies as set out in Note 2.20.



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**19 Deferred income tax**

Deferred income tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The analysis of deferred tax liabilities is as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014 HK\$'000
Deferred income tax liabilities				
- to be settled within 12 months	—	21,835	267	264
- to be settled after more than 12 months	<u>24,421</u>	<u>20,743</u>	<u>30,306</u>	<u>94,809</u>
	<u>24,421</u>	<u>42,578</u>	<u>30,573</u>	<u>95,073</u>

The movements on the deferred income tax liabilities are as follows:

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	—	24,421	42,578	42,578	30,573
Acquisition of subsidiaries (Note 30)	14,538	—	—	—	64,999
Charged/(credited) to the consolidated income statements (Note 12)	9,653	18,163	(13,136)	(17,514)	414
Currency translation differences	<u>230</u>	<u>(6)</u>	<u>1,131</u>	<u>754</u>	<u>(913)</u>
At end of year/period	<u>24,421</u>	<u>42,578</u>	<u>30,573</u>	<u>25,818</u>	<u>95,073</u>

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*Deferred income tax liabilities*

	Unremitted earnings of subsidiaries in the PRC HK\$'000	Revaluation of assets of assets HK\$'000	Total HK\$'000
At 1 January 2011	—	—	—
Acquisition of subsidiaries (Note 30(a))	3,500	11,038	14,538
Charged to the consolidated income statement	8,229	1,424	9,653
Currency translation differences	<u>175</u>	<u>55</u>	<u>230</u>
At 31 December 2011	<u>11,904</u>	<u>12,517</u>	<u>24,421</u>
At 1 January 2012	11,904	12,517	24,421
Charged to the consolidated income statement	9,597	8,566	18,163
Currency translation differences	<u>(3)</u>	<u>(3)</u>	<u>(6)</u>
At 31 December 2012	<u>21,498</u>	<u>21,080</u>	<u>42,578</u>
At 1 January 2013	21,498	21,080	42,578
(Credited)/charged to the consolidated income statement	(21,835)	8,699	(13,136)
Currency translation differences	<u>337</u>	<u>794</u>	<u>1,131</u>
At 31 December 2013	<u>—</u>	<u>30,573</u>	<u>30,573</u>
At 1 January 2013	21,498	21,080	42,578
(Credited)/charged to the consolidated income statement	(21,835)	4,321	(17,514)
Currency translation differences	<u>337</u>	<u>417</u>	<u>754</u>
At 30 June 2013 (Unaudited)	<u>—</u>	<u>25,818</u>	<u>25,818</u>
At 1 January 2014	—	30,573	30,573
Acquisition of subsidiaries (Note 30(b))	—	64,999	64,999
Charged to the consolidated income statement	—	414	414
Currency translation differences	<u>—</u>	<u>(913)</u>	<u>(913)</u>
At 30 June 2014	<u>—</u>	<u>95,073</u>	<u>95,073</u>

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Pursuant to the relevant PRC enterprise income tax rules and regulations, withholding tax is imposed on dividends declared to parent companies incorporated outside PRC in respect of profits earned by the Group’s PRC subsidiaries from 1 January 2008.

Deferred income tax liabilities of approximately HK\$nil, HK\$4,524,000, HK\$17,095,000 and HK\$20,418,000 as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively, have not been provided for in the consolidated balance sheets in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries of the Group as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not be reversed in the foreseeable future.

**20 Inventories**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Coal, fuel and other materials for waste treatment	<u>2,420</u>	<u>2,532</u>	<u>1,579</u>	<u>272</u>

The cost of inventories was recognised as expense and included in “cost of sales” amounted to HK\$15,486,000, HK\$79,680,000, HK\$74,831,000, HK\$38,256,000 and HK\$29,622,000 for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively.

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**21 Trade receivables, other receivables, deposits and prepayments**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Non-current assets				
Prepayments for property, plant and equipment	8,626	12,394	25,382	46,820
Rental deposits	—	1,930	1,930	1,930
	<u>8,626</u>	<u>14,324</u>	<u>27,312</u>	<u>48,750</u>
Current assets				
Trade receivables	63,009	82,841	72,472	82,807
Less: Allowance for impairment of trade receivables	—	(4,071)	(4,199)	(4,159)
Trade receivables — net	<u>63,009</u>	<u>78,770</u>	<u>68,273</u>	<u>78,648</u>
Deposits and prepayments	4,295	12,344	6,224	5,834
Other receivables	1,897	956	873	13,596
Value-added tax recoverable	2,306	—	—	6,825
Amount due from a related party (Note 34)	—	—	82,984	—
	<u>8,498</u>	<u>13,300</u>	<u>90,081</u>	<u>26,255</u>
	<u>80,133</u>	<u>106,394</u>	<u>185,666</u>	<u>153,653</u>

The credit period granted by the Group is generally 30 days. As at 31 December 2011, 2012, 2013 and 30 June 2014, the ageing analysis of trade receivables based on invoice date was as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Up to 1 month	37,988	32,592	37,808	38,685
1 to 3 months	11,406	19,248	17,330	25,186
3 to 6 months	4,744	13,302	9,216	11,426
Over 6 months	8,871	13,628	3,919	3,351
	<u>63,009</u>	<u>78,770</u>	<u>68,273</u>	<u>78,648</u>

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As at 31 December 2011, 2012, 2013 and 30 June 2014, trade receivables of HK\$25,021,000, HK\$46,178,000, HK\$30,465,000, HK\$39,963,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
1 to 3 months	11,406	19,248	17,330	25,186
3 to 6 months	4,744	13,302	9,216	11,426
Over 6 months	<u>8,871</u>	<u>13,628</u>	<u>3,919</u>	<u>3,351</u>
	<u>25,021</u>	<u>46,178</u>	<u>30,465</u>	<u>39,963</u>

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Amount due from a related party is unsecured, interest-free, repayable on demand and was fully settled subsequently in January 2014.

The carrying amounts of the Group’s trade receivables, other receivables, deposits and prepayments, value-added tax recoverable and amount due from a related party are denominated in the following currencies:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
RMB	80,133	103,687	182,912	148,359
HK\$	<u>—</u>	<u>2,707</u>	<u>2,754</u>	<u>5,294</u>
	<u>80,133</u>	<u>106,394</u>	<u>185,666</u>	<u>153,653</u>

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Movements on the Group’s allowance for impairment of trade receivables are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2013 HK\$'000	2014 HK\$'000
At beginning of year/period	—	—	4,071	4,071	4,199
Provision for impairment of trade receivables	—	4,072	—	—	—
Currency translation differences	—	(1)	128	73	(40)
At end of year/period	—	4,071	4,199	4,144	4,159

*(Unaudited)*

The creation and release of provision for impaired receivables have been included in “general and administrative expenses” in the consolidated income statements (Note 6). Amounts charged to the allowance account are written off, when there is no expectation of recovering additional cash.

The provision for impairment of trade receivable of HK\$4,072,000 arose from provision of waste treatment services for a customer. Management considered the recoverability of the trade receivable was in doubt, after taking into account its repayment history and other factors, and made a provision for impairment of trade receivable during the year ended 31 December 2012.

The other classes within trade and other receivables do not contain impaired assets.

**22 Available-for-sale financial assets**

	Year ended 31 December			As at 30 June	
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2013 HK\$'000	2014 HK\$'000
At beginning of year/period	—	—	—	—	45,991
Additions	—	—	45,093	—	—
Fair value gain on revaluation of available-for-sale financial assets recognised in equity	—	—	203	—	—
Disposal	—	—	—	—	(44,664)
Currency translation difference	—	—	695	—	(1,327)
At end of year/period	—	—	45,991	—	—

*(Unaudited)*

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Available-for-sale financial assets include the following:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
Unlisted investment securities, denominated in RMB	<u>—</u>	<u>—</u>	<u>45,991</u>	<u>—</u>

The Group realised revaluation gain of HK\$203,000 from equity to the consolidated income statements upon its disposal during the six months ended 30 June 2014.

The fair value of available-for-sale financial assets is based on current bid prices from banks.

The maximum exposure to credit risk at the balance sheet date is the carrying value of the unlisted investment securities classified as available for sale.

None of these financial assets is either past due or impaired.

**23 Restricted deposits**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
Restricted deposits, denominated in RMB	<u>—</u>	<u>—</u>	<u>6,360</u>	<u>6,299</u>

The restricted deposits of the Group represent deposits pledged for a BOT service concession arrangement in relation to a waste-to-energy plant in Zhanjiang, the PRC. The restricted deposits are deposited at 0.35% per annum with a bank in the PRC, where the remittance of funds is subject to foreign exchange control. As at 31 December 2013 and 30 June 2014, such restricted deposits would be matured on 31 January 2014 and 23 January 2015, respectively.

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**24 Short-term bank deposits**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Time deposits, denominated in RMB	<u>—</u>	<u>—</u>	<u>127,189</u>	<u>125,976</u>

As at 31 December 2013 and 30 June 2014, the weighted average effective interest rate on short-term bank deposits of the Group is 3.2% and 3.2% per annum, respectively, and these deposits have maturity dates ranging from 185 to 365 days. These short-term bank deposits are deposited with banks in the PRC, where the remittance of funds is subject to foreign exchange control.

**25 Cash and cash equivalents**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Cash at bank and on hand	<u>56,298</u>	<u>44,680</u>	<u>49,803</u>	<u>393,856</u>

The carrying amounts of the Group’s cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
RMB	37,332	44,149	49,529	128,733
HK\$	18,966	531	274	2,728
US\$	<u>—</u>	<u>—</u>	<u>—</u>	<u>262,395</u>
	<u>56,298</u>	<u>44,680</u>	<u>49,803</u>	<u>393,856</u>

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Group’s cash and bank balances of approximately HK\$37,324,000, HK\$44,149,000, HK\$49,477,000 and HK\$128,710,000, respectively, are deposited with banks in the PRC, where the remittance of funds is subject to foreign exchange control.



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26 **Share capital and reserves**

*Share capital*

	As at 31 December			As at
	2011	2012	2013	30 June
				2014
Authorised:				
Number of ordinary shares				
Ordinary shares of HK\$0.01 each as at 28 January 2014 (date of incorporation)	—	—	—	38,000,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,000,000</u>
Equivalent nominal value of ordinary shares (HK\$'000)	—	—	—	380
	<u>—</u>	<u>—</u>	<u>—</u>	<u>380</u>
Issued:				
Number of ordinary shares				
Ordinary shares of HK\$0.01 each issued as at 28 January 2014 (date of incorporation)	—	—	—	1
Issue of new shares on 25 April 2014	—	—	—	1,152,380
	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,152,381</u>
Equivalent nominal value of ordinary shares (HK\$'000)	—	—	—	12
	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>

**Capital reserve — Group**

Capital reserve includes the deemed contribution from Mr. KM Lai to transfer 15% beneficial interest in Eco-Tech to the Group being the difference between its fair value and the consideration (Note 30(a)).

On 30 June 2013, Mr. KM Lai waived a payable balance of HK\$297,422,000 due from the Group. This represented a non-cash transaction and was recognised as a deemed capital contribution during the same period.

On 30 June 2014, Best Approach Developments Limited, the immediate holding company, waived a payable balance of HK\$344,481,000 due from the Group. This represented a non-cash transaction and was recognised as a deemed capital contribution during the same period.

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*Capital reserve — Company*

	<b>Capital reserve</b> <i>HK\$’000</i>
At 28 January 2014 (date of incorporation)	—
Deemed contribution from the immediate holding company	<u>1,055,525</u>
At 30 June 2014	<u><u>1,055,525</u></u>

Capital reserve of the Company represents the deemed contribution over the cost of investment.

*Statutory reserve*

Pursuant to the Articles of Association of Group’s subsidiaries incorporated in the PRC now comprising the Group, these subsidiaries transfer 10% of their net profit as determined in accordance with the Accounting Rules and Regulations of the PRC to their statutory reserve funds unless the statutory reserve balances of respective subsidiaries have reached 50% or more of their registered capital.

*Other reserve*

Other reserve represent the difference between the fair value of consideration paid and the carrying amount of net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling shareholders (Note 31).

**27 Borrowings**

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Bank borrowings</b>				
Non-current	399,346	323,734	293,807	842,152
Current	<u>95,596</u>	<u>147,993</u>	<u>87,760</u>	<u>178,886</u>
Total	<u><u>494,942</u></u>	<u><u>471,727</u></u>	<u><u>381,567</u></u>	<u><u>1,021,038</u></u>

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Borrowings are analysed as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Portion of term loans due for repayment after one year — secured	<u>399,346</u>	<u>323,734</u>	<u>293,807</u>	<u>842,152</u>
Portion of term loans due for repayment within one year — secured	21,586	86,329	87,760	178,886
Portion of term loans due for repayment after one year which contain a repayment on demand clauses — secured (Note 3.1(iii))	<u>74,010</u>	<u>61,664</u>	<u>—</u>	<u>—</u>
	<u>95,596</u>	<u>147,993</u>	<u>87,760</u>	<u>178,886</u>
Total bank borrowings	<u>494,942</u>	<u>471,727</u>	<u>381,567</u>	<u>1,021,038</u>

The repayment terms of the long-term bank borrowings are analysed as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Wholly repayable within five years	348,773	331,134	381,567	428,949
Not wholly repayable within five years	<u>146,169</u>	<u>140,593</u>	<u>—</u>	<u>592,089</u>
	<u>494,942</u>	<u>471,727</u>	<u>381,567</u>	<u>1,021,038</u>

Bank borrowings are secured by collection of revenue from sales of electricity, land use rights (Note 15), property, plant and equipment (Note 16) and corporate guarantees (Note 33).

Bank borrowings are also secured by corporate and personal guarantees provided by former shareholders of Eco-Tech and Kewei as at 31 December 2011 and 2012. Such corporate and personal guarantees were released during the year ended 31 December 2013.

All of the Group’s bank borrowings are denominated in RMB during the Relevant Periods.

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The effective interest rates of bank borrowings per annum at the balance sheet date were as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	%	%	%	2014
Term loans — secured	<u>5.58-6.13</u>	<u>6.08-6.70</u>	<u>6.08-6.70</u>	<u>6.08-6.55</u>

28 **Trade and other payables**

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
Trade payables	9,401	7,314	18,097	13,307
Accruals and other payables (Note)	75,290	59,406	45,465	119,411
Amount due to a related party (Note 34)	<u>302,607</u>	<u>176,528</u>	<u>—</u>	<u>—</u>
	<u>387,298</u>	<u>243,248</u>	<u>63,562</u>	<u>132,718</u>

*Note:* The balances mainly include accrued staff cost and other staff benefits, construction payables and VAT payable. As at 31 December 2011, 2012 and 2013, the balances also included payable to a local government authority related in obtaining land use rights of HK\$2,837,000, HK\$2,837,000 and HK\$2,925,000, respectively. The amount was settled during the six months ended 30 June 2014.

The ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
Up to 1 month	7,649	4,234	10,447	5,348
1 to 2 months	934	470	3,300	3,432
2 to 3 months	377	1,372	2,753	2,465
Over 3 months	<u>441</u>	<u>1,238</u>	<u>1,597</u>	<u>2,062</u>
	<u>9,401</u>	<u>7,314</u>	<u>18,097</u>	<u>13,307</u>

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The carrying amounts of the Group’s trade and other payables are denominated in the following currencies:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$’000	HK\$’000	HK\$’000	2014 HK\$’000
RMB	387,216	242,939	63,329	127,032
HK\$	<u>82</u>	<u>309</u>	<u>233</u>	<u>5,686</u>
	<u>387,298</u>	<u>243,248</u>	<u>63,562</u>	<u>132,718</u>

29 **Cash generated from operations**

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Profit before income tax	53,667	152,935	148,350	83,415	128,282
Adjustment for:					
Construction revenue	—	—	—	—	(14,736)
Depreciation of property, plant and equipment	28,257	40,397	42,060	20,768	17,925
Amortisation of land use rights	707	3,807	3,866	1,920	2,028
Amortisation of intangible assets	—	—	—	—	32,669
Interest income	(85)	(264)	(908)	(427)	(1,616)
Interest expense	25,105	31,839	26,769	14,002	34,597
Exchange differences	2,016	806	707	311	(1,898)
Write-off/loss on disposals of property, plant and equipment	—	2	18	—	9,875
Provision for impairment of trade receivables	—	4,072	—	—	—
Change in working capital (excluding the effects of acquisition and currency translation differences on consolidation)					
- Non-current prepayments	—	—	—	—	(5,346)
- Inventories	(2,056)	(1,816)	(830)	(1,261)	1,244
- Trade and other receivables	(31,924)	(29,108)	21,640	(2,999)	22,296
- Trade and other payables	<u>526</u>	<u>11,629</u>	<u>8,168</u>	<u>(3,647)</u>	<u>(67,937)</u>
Net cash generated from operations	<u>76,213</u>	<u>214,299</u>	<u>249,840</u>	<u>112,082</u>	<u>157,383</u>

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In the consolidated statements of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December			Six months ended	
	2011	2012	2013	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					<i>(Unaudited)</i>
Net book amount	—	2	18	—	16,750
Write-off/loss on disposals of property, plant and equipment	<u>—</u>	<u>(2)</u>	<u>(18)</u>	<u>—</u>	<u>(9,875)</u>
Proceeds from disposals of property, plant and equipment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,875</u>

**30 Business combinations**

**(a) Acquisition of Worldtron Limited**

On 17 October 2011, the Group acquired 100% equity interest in Worldtron Limited (“Worldtron”) which indirectly held a 40% equity interest in Eco-Tech from Sky Excel Group Limited (“Sky Excel”), a subsidiary of China Power New Energy Development Company Limited (“CPNE”) and a shareholder loan of RMB21,012,000 (equivalent to HK\$25,798,000) for a total consideration of RMB192,000,000 (equivalent to HK\$235,757,000). The consideration was satisfied by the disposal of a company wholly owned by Mr. KM Lai to CPNE on behalf of the Group. Eco-Tech is principally engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants in Dongguan, the PRC.

This acquisition, together with Mr. KM Lai’s 15% previously held beneficial interest in Eco-Tech, enable Mr. KM Lai to control Eco-Tech. Mr. KM Lai subsequently transferred his 15% beneficial interest in Eco-Tech to the Group at a consideration of RMB12,780,000 (equivalent to HK\$15,693,000). The consideration was paid in 2012. The difference between the fair value of Mr. KM Lai’s previously held equity interests in Eco-Tech and the amounts payable by the Group of RMB51,341,000 (equivalent to HK\$63,041,000) was recognised as contributions from Mr. KM Lai and was recognised in capital reserve within equity. This acquisition was accounted for by applying the acquisition method of accounting.

The goodwill of HK\$174,495,000 arising from the acquisition is attributable to a number of elements, including the buyer’s specific synergies and the economies of scale expected from combining the operations of Kewei and Eco-Tech, as the two waste-to-energy power plants were located adjacent to each other.

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The following table summarises the consideration paid for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

	<b>As at 17 October 2011 HK\$’000</b>
<b>Consideration:</b>	
- Payable to a shareholder to acquire 40% equity interest in Eco-Tech	209,959
- Payable to a shareholder to acquire 15% equity interest in Eco-Tech	15,693
- Contributions from Mr. KM Lai	<u>63,041</u>
<b>Total consideration transferred</b>	<b><u>288,693</u></b>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	26,048
Land use rights (Note 15)	173,078
Property, plant and equipment (Note 16)	100,447
Inventories	5,839
Trade receivables	43,733
Deposits, prepayments and other receivables	54,264
Trade and other payables	(91,395)
Borrowings	(87,794)
Current income tax liabilities	(2,052)
Deferred income tax liabilities (Note 19)	<u>(14,538)</u>
	207,630
Non-controlling interests	(93,432)
Goodwill (Note 17)	<u>174,495</u>
	<b><u>288,693</u></b>

Acquisition-related costs of HK\$411,000 have been charged to general and administrative expenses in the consolidated income statement for the year ended 31 December 2011.

The net cash acquired from acquisition of Worldtron Limited approximated HK\$26,048,000 during the year ended 31 December 2011. Consideration payable of approximately HK\$15,834,000 was settled during the year ended 31 December 2012 and the remaining payable balance was waived as part of the deemed capital contribution from shareholder during the year ended 31 December 2013 (see Notes 26 and 34 for details).

The fair value of trade receivables is HK\$43,733,000. The gross contractual amount for trade receivables due is HK\$43,733,000, none of which is expected to be uncollectible.

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The revenue included in the consolidated income statement for the period from 17 October 2011 to 31 December 2011 contributed by Eco-Tech was HK\$26,257,000. Eco-Tech also contributed profit of HK\$2,068,000 over the same period.

Had Eco-Tech been consolidated from 1 January 2011, the consolidated income statement of the Group would show pro-forma revenue of HK\$312,801,000 and profit of HK\$63,631,000 for the year ended 31 December 2011.

(b) *Acquisition of Swift Ample*

On 1 January 2014, the Group acquired 100% equity interest in Swift Ample, which indirectly held 100% equity interest in China Scivest, from Ms. Loretta Lee’s brother, Mr. Lee Kar Lung (“Mr. KL Lee”), at a consideration of RMB100,000,000 (equivalent to HK\$127,190,000). China Scivest is principally engaged in the provision of municipal solid waste handling services and operation and management of waste-to-energy plants under BOT contract. As a result of the acquisition, China Scivest became a wholly owned subsidiary of the Group.

The following table summarises the consideration paid for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	<b>As at 1 January 2014 HK\$’000</b>
<b>Consideration:</b>	
- Payables to Mr. KL Lee to acquire 100% equity interest in Swift Ample	<u>127,190</u>
<b>Total consideration transferred</b>	<u><u>127,190</u></u>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	13,642
Intangible assets - concession rights (Note 17)	1,025,998
Property, plant and equipment (Note 16)	2,931
Non-current prepayments	1,817
Inventories	267
Trade receivables	33,891
Deposits, prepayments and other receivables	18,930
Trade and other payables	(148,084)
Borrowings	(756,140)
Other non-current liabilities	(1,063)
Deferred income tax liabilities (Note 19)	<u>(64,999)</u>
<b>Total identifiable net assets</b>	<u><u>127,190</u></u>



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Acquisition-related costs of HK\$114,000 have been charged to general and administrative expenses in the consolidated income statement for the period ended 30 June 2014.

The net cash outflow from acquisition of Swift Ample approximated HK\$113,190,000 during the six months ended 30 June 2014, which mainly comprised of cash consideration of RMB100,000,000 (equivalent to HK\$126,832,000 at the date of payment) offset by cash and cash equivalent of HK\$13,642,000 acquired from Swift Ample.

The fair value of trade receivables is HK\$33,891,000. The gross contractual amount for trade receivables due is HK\$33,891,000, none of which is expected to be uncollectible.

The revenue included in the consolidated income statement for the period from 1 January 2014 to 30 June 2014 contributed by Swift Ample was HK\$136,958,000. Swift Ample also contributed profit of HK\$49,411,000 over the same period.

**31 Transactions with non-controlling interests**

**(a) Dividends declared to the non-controlling interests**

On 18 October 2011, dividends of RMB32,153,000 (equivalent to HK\$39,480,000) were declared by Eco-Tech to the respective non-controlling shareholders. The amount was paid to the non-controlling shareholders by Mr. KM Lai on behalf of the Group. It represented a non-cash transaction for the year ended 31 December 2011.

**(b) Acquisition of the remaining equity interests in Eco-Tech**

On 15 November 2011, the Group acquired the remaining 45% equity interests in Eco-Tech at a total consideration of RMB38,340,000 (equivalent to HK\$47,078,000) from the remaining shareholders, who are independent third parties. The carrying amount of the non-controlling interests in Eco-Tech on the date of acquisition was HK\$53,952,000. The Group recognised a decrease in non-controlling interests of HK\$53,952,000 and an increase in equity attributable to owner of the Company of HK\$6,874,000. The consideration was subsequently settled in 2012. The effect of the changes in the ownership interest of Eco-Tech on the equity attributable to owners of the Company during the year ended 31 December 2011 is summarised as follows:

	<b>Year ended 31 December 2011 HK\$'000</b>
Carrying amount of non-controlling interests acquired	53,952
Consideration paid to non-controlling interests	<u>(47,078)</u>
Saving of consideration paid recognised within equity	<u>6,874</u>

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(c) *Acquisition of the remaining equity interests in Kewei*

On 12 August 2011, Mr. KM Lai effectively acquired the remaining 30% equity interests in Kewei at a total consideration of RMB48,000,000 (equivalent to HK\$58,729,000) from the remaining shareholder. The carrying amount of the non-controlling interests in Kewei on the date of acquisition was HK\$59,952,000. The Group recognised a decrease in non-controlling interests of HK\$59,952,000 and an increase in equity attributable to owner of the Company of HK\$1,223,000. The consideration was subsequently settled in 2012. The effect of the changes in the ownership interest of Kewei on the equity attributable to owners of the Company during the year ended 31 December 2011 is summarised as follows:

	<b>Year ended 31 December 2011</b> <i>HK\$’000</i>
Carrying amount of non-controlling interests acquired	59,952
Consideration paid to non-controlling interests	<u>(58,729)</u>
Saving of consideration paid recognised within equity	<u>1,223</u>

(d) *Capital injection from non-controlling interests*

On 3 April 2013, Zhanjiang was set up with a total registered capital of RMB150,000,000 (equivalent to HK\$187,887,000). Eco-Tech and Kewei owns 20% and 35% equity interest in Zhanjiang, respectively. An independent third party who holds 45% equity interest in Zhanjiang contributed RMB67,500,000 (equivalent to HK\$84,549,000).

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32 **Commitments**

(a) *Capital commitments*

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Authorised but not contracted for:				
Construction cost for BOT	<u>—</u>	<u>784,922</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>784,922</u>	<u>—</u>	<u>—</u>
Contracted but not provided for:				
Property, plant and equipment	63,242	61,208	106,255	184,872
Construction cost for BOT	—	—	809,501	806,972
Consideration relating to the acquisition of Swift Ample (Note 30(b))	<u>—</u>	<u>—</u>	<u>127,190</u>	<u>—</u>
	<u>63,242</u>	<u>61,208</u>	<u>1,042,946</u>	<u>991,844</u>

(b) *Operating lease commitments*

At 31 December 2011, 2012 and 2013 and 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2011	2012	2013	30 June
	HK\$'000	HK\$'000	HK\$'000	2014
				HK\$'000
Within 1 year	6	3,425	3,824	3,697
After 1 year but within 5 years	<u>—</u>	<u>4,845</u>	<u>1,533</u>	<u>411</u>
	<u>6</u>	<u>8,270</u>	<u>5,357</u>	<u>4,108</u>

33 **Financial guarantees**

There are certain corporate guarantees provided by the subsidiaries now comprising the Group for each other in respect of borrowings (Note 27) as at 31 December 2011, 2012 and 2013 and 30 June 2014. There were also corporate guarantees provided to China Scivest which was controlled by Mr. KL Lee as at and during the years ended 31 December 2011 and 2012. All corporate guarantees were released during the year ended 31 December 2013.

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34 Related party transactions

The amounts due from/(to) related parties, are unsecured, interest-free and repayable on demand. The fair values approximate their carrying values and are denominated in RMB.

Major related parties that had transactions with the Group were as follows:

Related parties	Relationship with the Company
Dongguan Dongchang Concrete Mixing Company Limited 東莞市東長混凝土攪拌有限公司* (“Dongguan Dongchang”)	A company controlled by Mr. KM Lai
Mr. KM Lai	Controlling shareholder
Best Approach Developments Limited	Immediate holding company

\* The English name referred to above represented the best efforts by management of the Company in translating the Chinese name as this related party does not have an official English name.

(a) *Transactions with related parties*

During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, Dongguan Dongchang collected and processed fly ashes and bottom ashes produced by Eco-tech for free. Such arrangement was terminated in April 2014.

Other than those disclosed above and elsewhere in this report, the Group did not have any transaction with its related parties during the Relevant Periods.

(b) *Balances with related parties*

The Group

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a related party				
- Mr. KM Lai	—	—	82,984	—
Amount due to a related party				
- Mr. KM Lai	<u>(302,607)</u>	<u>(176,528)</u>	<u>—</u>	<u>—</u>
	<u>(302,607)</u>	<u>(176,528)</u>	<u>82,984</u>	<u>—</u>

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	Maximum receivable balance during the year ended 31 December			Maximum receivable balance during the period ended 30 June 2014
	2011	2012	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
- Mr. KM Lai	<u>—</u>	<u>—</u>	<u>82,984</u>	<u>82,984</u>

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due from/(to) related parties:				
At beginning of year/period	58,340	(302,607)	(176,528)	82,984
Acquisition of subsidiaries	(304,966)	122,682	—	—
Dividend paid to non-controlling interests	(39,480)	—	—	—
Advance from related parties	(205,432)	(108,066)	(125,284)	—
Repayment to/(from) related parties	202,322	112,239	87,682	(86,115)
Capital injection from the immediate holding company (Note 26)	—	—	—	(344,481)
Deemed contribution from Mr. KM Lai	—	—	297,422	—
Deemed contribution from the immediate holding company	—	—	—	344,481
Exchange translation	<u>(13,391)</u>	<u>(776)</u>	<u>(308)</u>	<u>3,131</u>
At end of year/period	<u>(302,607)</u>	<u>(176,528)</u>	<u>82,984</u>	<u>—</u>

**Company**

	As at 30 June 2014
	HK\$'000
Amount due from a subsidiary	
- Yi Feng	<u>11</u>

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**Maximum receivable  
balance during  
the period ended  
30 June 2014**  
*HK\$’000*

- Yi Feng 12

**(c) Key management compensation**

Key management includes directors and top management. The compensation paid or payable to key management for employee services is shown below:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
				<i>(Unaudited)</i>	
Wages and salaries	2,335	4,817	7,012	2,372	5,050
Pension costs - defined contribution plan	97	196	241	112	153
Welfare and other expenses	<u>233</u>	<u>427</u>	<u>512</u>	<u>256</u>	<u>489</u>
	<u>2,665</u>	<u>5,440</u>	<u>7,765</u>	<u>2,740</u>	<u>5,692</u>

**35. Subsequent event**

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 30 June 2014:

Pursuant to the written resolution passed by the shareholders of the Company on [●], conditional on the share premium account of the Company being credited as a result of the [Redacted] of the [Redacted] by the Company pursuant to the [Redacted] as described in the [Redacted] (“[Redacted]”), the Company will [Redacted], standing to the credit of its share premium account of the Company by applying such sum to pay up in full at par a total of [Redacted] shares for [Redacted] to the shareholders on a pro rata basis immediately before the [Redacted].

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**III ADDITIONAL FINANCIAL INFORMATION OF WORLDTRON LIMITED (“WORLDTRON”) AND ITS SUBSIDIARIES BEFORE ACQUISITION**

The financial information of Worldtron and its subsidiaries for the period from 1 January 2011 to 17 October 2011 is as follows:

(a) **Consolidated income statement**

	<i>Note</i>	<b>Period from 1 January 2011 to 17 October 2011 HK\$’000</b>
Revenue	i	158,331
Cost of sales	ii	<u>(116,569)</u>
<b>Gross profit</b>		41,762
General and administrative expenses	ii	(15,674)
Other income	iii	<u>7,590</u>
<b>Operating profit</b>		<u>33,678</u>
Interest income		96
Interest expense		<u>(4,275)</u>
Interest expense - net		<u>(4,179)</u>
<b>Profit before income tax</b>		29,499
Income tax expense		<u>(8,391)</u>
<b>Profit for the period</b>		<u><u>21,108</u></u>

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(b) **Consolidated balance sheet**

	<i>Note</i>	<b>As at 17 October 2011 HK\$’000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	iv	161,338
Land use rights	v	<u>56,616</u>
<b>Total non-current assets</b>		<u>217,954</u>
<b>Current assets</b>		
Inventories	vii	5,839
Trade receivables	vi	43,733
Deposits, prepayments and other receivables	vi	54,264
Cash and cash equivalents	viii	<u>26,048</u>
<b>Total current assets</b>		<u>129,884</u>
<b>Total assets</b>		<u><u>347,838</u></u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders</b>		
Share capital		—
Reserves		<u>47,740</u>
		47,740
Non-controlling interests		<u>115,357</u>
<b>Total equity</b>		<u>163,097</u>



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	<i>Note</i>	<b>As at 17 October 2011 HK\$’000</b>
<b>LIABILITIES</b>		
<b>Non-current liability</b>		
Deferred income tax liabilities		<u>3,500</u>
<b>Current liabilities</b>		
Trade payables	x	7,881
Other payables and accruals	x	83,514
Borrowings	ix	87,794
Current income tax liabilities		<u>2,052</u>
		<u>181,241</u>
<b>Total liabilities</b>		<u>184,741</u>
<b>Total equity and liabilities</b>		<u>347,838</u>
<b>Net current liabilities</b>		<u>(51,357)</u>
<b>Total assets less current liabilities</b>		<u>166,597</u>

(c) Consolidated statements of changes in equity

	<u>Attributable to equity holders of the Company</u>					Non- controlling interests	Total equity
	Share capital	Statutory reserve	Exchange reserve	Retained earnings	Total		
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>Balance at 1 January 2011</b>	—	4,445	1,062	30,519	36,026	97,566	133,592
<b>Comprehensive income</b>							
Profit for the period	—	—	—	9,077	9,077	12,031	21,108
<b>Other comprehensive income</b>							
Currency translation differences	—	—	3,734	—	3,734	4,663	8,397
<b>Total comprehensive income for the period</b>	—	—	3,734	9,077	12,811	16,694	29,505
Appropriation of statutory reserve	—	731	—	(1,828)	(1,097)	1,097	—
<b>Balance at 17 October 2011</b>	—	5,176	4,796	37,768	47,740	115,357	163,097

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(d) **Consolidated statements of cash flow**

		<b>Period from 1 January 2011 to 17 October 2011 HK\$'000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	xi	56,643
Income tax paid		<u>(11,431)</u>
Net cash generated from operating activities		<u>45,212</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment		(3,394)
Interest received		<u>96</u>
Net cash used in investing activities		<u>(3,298)</u>
<b>Financing activities</b>		
Repayment to related parties		(18,023)
Repayment of borrowings		(10,213)
Interest paid		<u>(4,275)</u>
Net cash used in financing activities		<u>(32,511)</u>
<b>Net increase in cash and cash equivalents</b>		9,403
Cash and cash equivalents at beginning of period		15,527
Currency translation differences		<u>1,118</u>
<b>Cash and cash equivalents at end of period</b>		<u><u>26,048</u></u>

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*Notes:*

(i) *Revenue*

	<b>Period from 1 January 2011 to 17 October 2011 HK\$’000</b>
Revenue from power sales	100,803
Waste treatment fee	<u>57,528</u>
	<u>158,331</u>

(ii) *Expenses by nature*

	<b>Period from 1 January 2011 to 17 October 2011 HK\$’000</b>
Coal	50,302
Fuel	422
Environmental protection expenses	9,866
Depreciation and amortisation	
- Land use rights	993
- Property, plant and equipment	17,666
Employee benefit expenses	<u>17,624</u>

(iii) *Other income*

	<b>Period from 1 January 2011 to 17 October 2011 HK\$’000</b>
Value-added tax refund	6,893
Others	<u>697</u>
	<u>7,590</u>

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(iv) *Property, plant and equipment*

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office and other equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January 2011</b>					
Cost	83,670	185,744	1,301	900	271,615
Accumulated depreciation	<u>(18,978)</u>	<u>(82,791)</u>	<u>(806)</u>	<u>(664)</u>	<u>(103,239)</u>
Net book amount	<u>64,692</u>	<u>102,953</u>	<u>495</u>	<u>236</u>	<u>168,376</u>
<b>Period from 1 January 2011 to 17 October 2011</b>					
Opening net book amount	64,692	102,953	495	236	168,376
Additions	1,524	1,533	288	49	3,394
Depreciation	(3,219)	(14,304)	(99)	(44)	(17,666)
Currency translation differences	<u>2,864</u>	<u>4,335</u>	<u>25</u>	<u>10</u>	<u>7,234</u>
Closing net book amount	<u>65,861</u>	<u>94,517</u>	<u>709</u>	<u>251</u>	<u>161,338</u>
<b>At 17 October 2011</b>					
Cost	88,979	195,639	1,653	990	287,261
Accumulated depreciation	<u>(23,118)</u>	<u>(101,122)</u>	<u>(944)</u>	<u>(739)</u>	<u>(125,923)</u>
Net book amount	<u>65,861</u>	<u>94,517</u>	<u>709</u>	<u>251</u>	<u>161,338</u>

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(v) *Land use rights*

In the PRC:

*HK\$’000*

**At 1 January 2011**

Cost	58,846
Accumulated amortisation	<u>(3,691)</u>

Net book amount	<u><u>55,155</u></u>
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**Period from 1 January 2011 to 17 October 2011**

Opening net book amount	55,155
Amortisation	(993)
Currency translation differences	<u>2,454</u>

Net book amount	<u><u>56,616</u></u>
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**At 17 October 2011**

Cost	61,489
Accumulated amortisation	<u>(4,873)</u>

Net book amount	<u><u>56,616</u></u>
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(vi) *Trade receivables, deposits, prepayments and other receivables*

**As at  
17 October 2011**

*HK\$’000*

Trade receivables	43,733
Other receivables	1,564
Deposits and prepayments	4,624
Amount due from a shareholder	<u>48,076</u>

97,997

The amount due from a shareholder is unsecured, interest free and repayable on demand.

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(vii) *Inventories*

As at  
17 October 2011  
HK\$’000

Coal, fuel and other materials for waste treatment 5,839

(viii) *Cash and cash equivalents*

As at  
17 October 2011  
HK\$’000

Cash at bank and on hand 26,048

(ix) *Borrowings*

As at  
17 October 2011  
HK\$’000

Portion of term loans due for repayment after one year which  
contained repayment on demand clauses — secured 87,794

(x) *Trade payables, other payables and accruals*

As at  
17 October 2011  
HK\$’000

Trade payables 7,881  
Accruals and other payables 35,878  
Amount due to a related party 21,838  
Amount due to CPNE 25,798  
91,395

The amount due to a related party and the amount due to CPNE are unsecured, interest free and repayable on demand.

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(xi) *Cash generated from operations*

	<b>Period from 1 January 2011 to 17 October 2011 HK\$’000</b>
Profit before income tax	29,499
Adjustment for:	
Depreciation for property, plant and equipment	17,666
Amortisation of land use rights	993
Interest income	(96)
Interest expense	4,275
Change in working capital (excluding the effects of acquisition and currency translation differences on consolidation)	
— Inventories	(1,040)
— Trade and other receivables	6,564
— Trade and other payables	<u>(1,218)</u>
Net cash generated from operations	<u><u>56,643</u></u>

**IV ADDITIONAL FINANCIAL INFORMATION OF SWIFT AMPLE BUSINESS BEFORE ACQUISITION**

As of the date of this report, China Green is a wholly owned subsidiary of Swift Ample. The address of its registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. China Green and its subsidiaries (“China Green Group”) are engaged in the provision of municipal solid waste handling services and design, construction, operation and management of waste-to-energy plants (“Swift Ample Business”).

As at 1 January 2011, China Green Group was wholly owned by Asia Energy Logistic Group Limited (“Asia Energy”). On 13 July 2011, Wise Track Group Limited (“Wise Track”), a company wholly owned company by Mr. KL Lee, acquired a 100% equity interest in China Green Group from Asia Energy at a consideration of HK\$50,000,000. China Green indirectly held 100% equity interest in China Scivest through which the Swift Ample Business was principally operated. As a result of the acquisition, China Scivest became a wholly owned subsidiary controlled by Mr. KL Lee.

Wise Track transferred 100% equity interests in China Green Group to Swift Ample on 27 September 2011.

For the purpose of this report, the financial information of Swift Ample Business for each of the years ended 31 December 2011, 2012 and 2013 has been prepared in accordance with HKFRS 10 “Consolidated Financial Statements” issued by the HKICPA, using the carrying values of the Swift Ample Business from the predecessor’s perspective for all periods presented.

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**ACCOUNTANT’S REPORT OF THE GROUP**

China Green is a limited liability company incorporated in Hong Kong. The address of its registered office is Unit 1701B, 17/F, International Commerce Centre, 1 Austin Road, Kowloon, Hong Kong.

As at 31 December 2013, Swift Ample mainly had interest in a subsidiary of HK\$1 and share capital of HK\$1.

As at 31 December 2013, China Green mainly had interests in subsidiaries of HK\$33,083,000, other payables of HK\$87,053,000 and accumulated losses of HK\$53,968,000.

The financial information of the Swift Ample Business as at 31 December 2011, 2012 and 2013, and each of the years ended 31 December 2011, 2012 and 2013 is as follows:

(a) **Consolidated income statements**

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	i	71,493	334,842	402,786
Cost of sales	ii	<u>(62,652)</u>	<u>(279,196)</u>	<u>(280,667)</u>
<b>Gross profit</b>		8,841	55,646	122,119
General and administrative expenses	ii	(11,354)	(1,752)	(8,872)
Other income	iii	1,821	477	—
Other gain, net	iv	<u>—</u>	<u>149</u>	<u>337</u>
<b>Operating (loss)/profit</b>		(692)	54,520	113,584
Interest income	vi	125	78	68
Interest expense	vi	<u>(19,195)</u>	<u>(19,645)</u>	<u>(31,368)</u>
Interest expense, net		<u>(19,070)</u>	<u>(19,567)</u>	<u>(31,300)</u>
<b>(Loss)/profit before income tax</b>		(19,762)	34,953	82,284
Income tax expense	vii	<u>—</u>	<u>(9,528)</u>	<u>(8,326)</u>
<b>(Loss)/profit for the year attributable to equity holders</b>		<u>(19,762)</u>	<u>25,425</u>	<u>73,958</u>



**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

(b) Consolidated balance sheets

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	viii	—	334,811	631,322
Property, plant and equipment	ix	1,551	1,244	2,931
Long term prepayments	xi	<u>36,487</u>	<u>1,151</u>	<u>1,817</u>
		<u>38,038</u>	<u>337,206</u>	<u>636,070</u>
<b>Current assets</b>				
Inventories	x	—	—	267
Trade receivables	xi	1,792	—	33,891
Deposits, prepayments and other receivables	xi	2,189	3,370	18,930
Available-for-sale financial assets	xii	2,467	—	—
Cash and cash equivalents	xiii	<u>3,175</u>	<u>6,444</u>	<u>13,642</u>
		<u>9,623</u>	<u>9,814</u>	<u>66,730</u>
<b>Total assets</b>		<u><u>47,661</u></u>	<u><u>347,020</u></u>	<u><u>702,800</u></u>
<b>DEFICIT</b>				
<b>Deficit attributable to equity holders</b>				
Share capital		—	—	—
Reserves		<u>(472,817)</u>	<u>(447,360)</u>	<u>(220,770)</u>
<b>Total equity</b>		<u><u>(472,817)</u></u>	<u><u>(447,360)</u></u>	<u><u>(220,770)</u></u>

**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred income tax liabilities	xiv	—	9,527	18,283
Other non-current liabilities		<u>606</u>	<u>807</u>	<u>1,063</u>
		<u>606</u>	<u>10,334</u>	<u>19,346</u>
<b>Current liabilities</b>				
Trade and other payables	xv	199,162	135,344	148,084
Borrowings	xvi	<u>320,710</u>	<u>648,702</u>	<u>756,140</u>
		<u>519,872</u>	<u>784,046</u>	<u>904,224</u>
<b>Total liabilities</b>		<u>520,478</u>	<u>794,380</u>	<u>923,570</u>
<b>Total equity and liabilities</b>		<u>47,661</u>	<u>347,020</u>	<u>702,800</u>
<b>Net current liabilities</b>		<u>(510,249)</u>	<u>(774,232)</u>	<u>(837,494)</u>
<b>Total assets less current liabilities</b>		<u>(472,211)</u>	<u>(437,026)</u>	<u>(201,424)</u>

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**ACCOUNTANT’S REPORT OF THE GROUP**

(c) Consolidated statements of changes in equity

	Attributable to equity holders of the Company				
	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Balance at 1 January 2011</b>	—	39	687	(440,178)	(439,452)
<b>Comprehensive income</b>					
Loss for the year	—	—	—	(19,762)	(19,762)
<b>Other comprehensive income</b>					
Currency translation difference	—	—	(13,603)	—	(13,603)
<b>Total comprehensive income for the year</b>	—	—	(13,603)	(19,762)	(33,365)
<b>Balance at 31 December 2011</b>	—	39	(12,916)	(459,940)	(472,817)
<b>Balance at 1 January 2012</b>	—	39	(12,916)	(459,940)	(472,817)
<b>Comprehensive income</b>					
Profit for the year	—	—	—	25,425	25,425
<b>Other comprehensive income</b>					
Currency translation difference	—	—	32	—	32
<b>Total comprehensive income for the year</b>	—	—	32	25,425	25,457
<b>Balance at 31 December 2012</b>	—	39	(12,884)	(434,515)	(447,360)
<b>Balance at 1 January 2013</b>	—	39	(12,884)	(434,515)	(447,360)
<b>Comprehensive income</b>					
Profit for the year	—	—	—	73,958	73,958
<b>Other comprehensive income</b>					
Currency translation difference	—	—	(8,059)	—	(8,059)
<b>Total comprehensive income for the year</b>	—	—	(8,059)	73,958	65,899
Deemed contribution from shareholder	—	160,691	—	—	160,691
<b>Balance at 31 December 2013</b>	—	160,730	(20,943)	(360,557)	(220,770)

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**ACCOUNTANT’S REPORT OF THE GROUP**

(d) Consolidated statements of cash flows

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>				
Cash used in operations	(xvii)	(21,310)	(199,366)	(134,090)
Income tax paid		<u>—</u>	<u>—</u>	<u>—</u>
Net cash used in operating activities		<u>(21,310)</u>	<u>(199,366)</u>	<u>(134,090)</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(1,194)	(39)	(2,369)
Proceeds from disposal of property, plant and equipment		—	—	260
Purchase of available-for-sale financial assets		(2,435)	—	—
Proceeds from disposal of available-for-sale financial assets		—	2,467	—
Interest received		<u>125</u>	<u>78</u>	<u>68</u>
Net cash (used in)/generated from investing activities		<u>(3,504)</u>	<u>2,506</u>	<u>(2,041)</u>
<b>Financing activities</b>				
Repayment to related parties		(19,491)	(129,255)	(29,295)
Advance from related parties		—	20,967	117,936
Proceeds from borrowings		316,610	328,071	105,197
Repayment of borrowings		(259,029)	—	(19,411)
Interest paid		<u>(19,195)</u>	<u>(19,645)</u>	<u>(31,368)</u>
Net cash generated from financing activities		<u>18,895</u>	<u>200,138</u>	<u>143,059</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>				
		(5,919)	3,278	6,928
Cash and cash equivalents at beginning of year		9,915	3,175	6,444
Currency translation differences		<u>(821)</u>	<u>(9)</u>	<u>270</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>3,175</u></u>	<u><u>6,444</u></u>	<u><u>13,642</u></u>

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**ACCOUNTANT’S REPORT OF THE GROUP**

Notes:

(i) **Revenue**

	Year ended 31 December		
	2011	2012	2013
	HK\$’000	HK\$’000	HK\$’000
Revenue from power sales	51,887	—	65,700
Waste treatment fee	19,606	—	38,255
Construction revenue	—	334,842	298,831
	<u>71,493</u>	<u>334,842</u>	<u>402,786</u>

(ii) **Expenses by nature**

	Year ended 31 December		
	2011	2012	2013
	HK\$’000	HK\$’000	HK\$’000
Coal	44,108	—	—
Fuel	631	—	684
Maintenance cost	2,552	161	2,869
Environmental protection expenses	3,281	—	7,716
Auditor’s remuneration	98	73	67
Employee benefit expenses (Note v)	14,054	—	7,443
Depreciation and amortisation			
- Intangible assets (Note viii)	4,600	—	17,216
- Property, plant and equipment (Note ix)	386	346	426
Operating lease rentals	498	—	—
Construction cost recognised for construction of BOT projects (included in cost of sales)	—	279,035	249,026
	<u>—</u>	<u>279,035</u>	<u>249,026</u>

(iii) **Other income**

	Year ended 31 December		
	2011	2012	2013
	HK\$’000	HK\$’000	HK\$’000
Value-added tax refund	1,511	477	—
Others	310	—	—
	<u>1,821</u>	<u>477</u>	<u>—</u>

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The amount mainly represents Swift Ample Business’s entitlement to value-added tax refund in accordance with the Notice of the Ministry of Finance and State Administration of Taxation on policies regarding the value-added tax on Comprehensive Utilisation of Resources and Other Products.

(iv) *Other gain, net*

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Exchange gain, net	—	149	373
Loss on disposals of property, plant and equipment	—	—	(36)
	<u>—</u>	<u>149</u>	<u>337</u>

(v) *Employee benefit expenses*

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Wages and salaries	10,640	—	4,866
Pension costs — defined contribution plans	730	—	187
Welfare and other expenses	2,684	—	2,390
	<u>14,054</u>	<u>—</u>	<u>7,443</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT OF THE GROUP**

(vi) *Interest income and expense*

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Interest expense:</b>			
Interest expense on borrowings			
- wholly repayable over five years	19,195	28,704	48,694
Less: interest expense capitalised into intangible assets	<u>—</u>	<u>(9,059)</u>	<u>(17,326)</u>
	<u>19,195</u>	<u>19,645</u>	<u>31,368</u>
<b>Interest income:</b>			
Interest income from bank deposits	<u>(125)</u>	<u>(78)</u>	<u>(68)</u>
Interest expense, net	<u>19,070</u>	<u>19,567</u>	<u>31,300</u>

(vii) *Income tax expense*

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Deferred income tax (Note xiv)	<u>—</u>	<u>9,528</u>	<u>8,326</u>
Income tax expense	<u>—</u>	<u>9,528</u>	<u>8,326</u>

Entities now comprising Swift Ample Business incorporated in the PRC was subjected to a tax rate of 25% for each of the years ended 31 December 2011, 2012 and 2013 on the assessable profits arising in or derived from the PRC except the followings:

- i) China Scivest was entitled to a two-year exemption from PRC enterprise income tax in 2008 and 2009, followed by a 50% reduction in PRC enterprise income tax rate in 2010, 2011 and 2012. Accordingly, the applicable tax rate for China Scivest was 12.5% and 12.5% for each of the years ended 31 December 2011 and 2012.
- ii) China Scivest has obtained an approval for an EIT tax incentive that its project will be fully exempted from the PRC enterprise income tax for three years starting from 2013 to 2015, followed by a 50% tax exemption for the next three years from 2016 to 2018. Accordingly, the applicable tax rate for China Scivest was 0% for the year ended 31 December 2013.

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**ACCOUNTANT’S REPORT OF THE GROUP**

(viii) *Intangible assets*

	<b>Concession Rights</b> <i>HK\$’000</i>
<b>Year ended 31 December 2011</b>	
At beginning of year (Note)	4,600
Amortisation	<u>(4,600)</u>
At end of year	<u>—</u>
<b>Year ended 31 December 2012</b>	
At beginning of year	—
Additions	334,832
Currency translation differences	<u>(21)</u>
At end of year	<u>334,811</u>
<b>Year ended 31 December 2013</b>	
At beginning of year	334,811
Additions	298,091
Amortisation	(17,216)
Currency translation differences	<u>15,636</u>
At end of year	<u>631,322</u>

*Note:* The balance represents concession right under the BOT arrangement. As at 31 December 2010, management had performed impairment assessment of the intangible asset with the view that the economic benefit from the existing concession right will be fully utilised during 2011 and the balance is then written down to its estimated recoverable amount. Additions for each of the years ended 31 December 2012 and 2013 arised from BOT arrangement which was approved by the grantor in 2011.



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**ACCOUNTANT’S REPORT OF THE GROUP**

(ix) *Property, plant and equipment*

	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Office and other equipment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>At 1 January 2011</b>			
Cost	633	632	1,265
Accumulated depreciation	<u>(299)</u>	<u>(346)</u>	<u>(645)</u>
Net book amount	<u>334</u>	<u>286</u>	<u>620</u>
<b>Year ended 31 December 2011</b>			
Opening net book amount	334	286	620
Additions	1,173	132	1,305
Depreciation	(268)	(118)	(386)
Currency translation differences	<u>5</u>	<u>7</u>	<u>12</u>
Closing net book amount	<u>1,244</u>	<u>307</u>	<u>1,551</u>
<b>As at 31 December 2011</b>			
Cost	1,822	783	2,605
Accumulated depreciation	<u>(578)</u>	<u>(476)</u>	<u>(1,054)</u>
Net book amount	<u>1,244</u>	<u>307</u>	<u>1,551</u>
<b>Year ended 31 December 2012</b>			
Opening net book amount	1,244	307	1,551
Additions	—	39	39
Depreciation	<u>(296)</u>	<u>(50)</u>	<u>(346)</u>
Closing net book amount	<u>948</u>	<u>296</u>	<u>1,244</u>
<b>As at 31 December 2012</b>			
Cost	1,378	405	1,783
Accumulated depreciation	<u>(430)</u>	<u>(109)</u>	<u>(539)</u>
Net book amount	<u>948</u>	<u>296</u>	<u>1,244</u>

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	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Office and other equipment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Year ended 31 December 2013</b>			
Opening net book amount	948	296	1,244
Additions	1,377	992	2,369
Disposals	(239)	(57)	(296)
Depreciation	(340)	(86)	(426)
Currency translation differences	<u>19</u>	<u>21</u>	<u>40</u>
Closing net book amount	<u>1,765</u>	<u>1,166</u>	<u>2,931</u>
<b>As at 31 December 2013</b>			
Cost	2,090	1,321	3,411
Accumulated depreciation	<u>(325)</u>	<u>(155)</u>	<u>(480)</u>
Net book amount	<u>1,765</u>	<u>1,166</u>	<u>2,931</u>

(x) ***Inventories***

	<b>As at 31 December</b>		
	<b>2011</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
Coal, fuel and other materials for waste treatment	<u>—</u>	<u>—</u>	<u>267</u>

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**ACCOUNTANT’S REPORT OF THE GROUP**

(xi) *Trade receivables, deposits, prepayments and other receivables*

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>Non-current asset</b>			
Prepayments for construction	<u>36,487</u>	<u>1,151</u>	<u>1,817</u>
<b>Current assets</b>			
Trade receivables	1,792	—	33,891
Deposits and prepayments	76	292	394
Other receivables	533	142	—
Value-added tax recoverable	<u>1,580</u>	<u>2,936</u>	<u>18,536</u>
	<u>3,981</u>	<u>3,370</u>	<u>52,821</u>
	<u>40,468</u>	<u>4,521</u>	<u>54,638</u>

(xii) *Available-for-sale financial assets*

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
At beginning of year	—	2,467	—
Additions	2,435	—	—
Disposals	—	(2,435)	—
Currency translation difference	<u>32</u>	<u>(32)</u>	<u>—</u>
At end of year	<u>2,467</u>	<u>—</u>	<u>—</u>

(xiii) *Cash and cash equivalents*

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Cash at bank and on hand	<u>3,175</u>	<u>6,444</u>	<u>13,642</u>

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**ACCOUNTANT’S REPORT OF THE GROUP**

(xiv) *Deferred income tax liabilities — temporary differences on assets recognised on BOT project*

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
At beginning of year	—	—	9,527
Charged to the consolidated income statements (Note vii)	—	9,528	8,326
Currency translation differences	—	(1)	430
At end of year	<u>—</u>	<u>9,527</u>	<u>18,283</u>

(xv) *Trade and other payables*

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade payables	4,056	704	5,787
Accruals and other payables	12,409	59,620	142,297
Amount due to a shareholder	<u>182,697</u>	<u>75,020</u>	<u>—</u>
	<u>199,162</u>	<u>135,344</u>	<u>148,084</u>

(xvi) *Borrowings*

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Portion of term loans due for repayment after one year which contain a repayment on demand clause - secured and denominated in RMB	<u>320,710</u>	<u>648,702</u>	<u>756,140</u>

Bank borrowings are secured by intangible assets of Swift Ample Business as at 31 December 2011, 2012 and 2013.

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**ACCOUNTANT’S REPORT OF THE GROUP**

Bank borrowings are also secured by land use right held by Eco-Tech and corporate guarantees provided by Eco-Tech and Kewei which are controlled by Mr. KM Lai as at 31 December 2012 (2011: corporate guarantees only). All guarantees were released during the year ended 31 December 2013. Service fees of HK\$273,000, HK\$548,000 and HK\$278,000 were charged to the consolidated income statements during the years ended 31 December 2011, 2012 and 2013, respectively.

(xvii) *Cash used in operations*

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
(Loss)/profit before income tax	(19,762)	34,953	82,284
Adjustment for:			
Construction revenue	—	(334,842)	(298,831)
Depreciation of property, plant and equipment	386	346	426
Amortisation of intangible assets	4,600	—	17,216
Interest income	(125)	(78)	(68)
Interest expense	19,195	19,645	31,368
Loss on disposals of property, plant and equipment	—	—	36
Change in working capital (excluding the effects of acquisition and currency translation differences on consolidation)			
— Long term prepayments	(36,287)	35,412	—
— Inventories	4,336	(80)	(883)
— Trade and other receivables	11,763	607	(49,351)
— Trade and other payables	<u>(5,416)</u>	<u>44,671</u>	<u>83,713</u>
Net cash used in operations	<u>(21,310)</u>	<u>(199,366)</u>	<u>(134,090)</u>

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>
Net book amount (Note (ix))	—	—	296
Loss on disposal of property, plant and equipment	<u>—</u>	<u>—</u>	<u>(36)</u>
Proceeds from disposal of property, plant and equipment	<u>—</u>	<u>—</u>	<u>260</u>

**V SUBSEQUENT FINANCIAL STATEMENT**

No audited financial statements have been prepared by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 30 June 2014 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 30 June 2014.

Yours faithfully,  
**[PricewaterhouseCoopers]**  
*Certified Public Accountants*  
Hong Kong

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[Redacted]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

[Redacted]

American Appraisal China Limited  
13/F, On Hing Building  
1 On Hing Terrace, Central, Hong Kong  
美國評值有限公司  
香港中環安慶臺1號安慶大廈13樓  
Tel +852 2511 5200 / Fax +852 2511 9626

Leading / Thinking / Performing



[Date]

The Board of Directors  
Canvest Environmental Protection Group Company Limited  
Room 1701B, 17/F, International Commerce Centre,  
1 Austin Road West,  
West Kowloon,  
Hong Kong

Dear Sirs,

In accordance with the instructions to value property interests of Canvest Environmental Protection Group Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) located at Xihuan Road, Hengli Town, Dongguan City, Guangdong Province, the People’s Republic of China (the “PRC”) (the “Property”), we confirm that we have carried out inspection for the property interests, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such property interests as at June 30, 2014 (the “date of valuation”).

This letter that forms part of our valuation report explains the basis and methodology of valuations and clarifies our assumptions made on the ownerships to the property interests and the limiting conditions.

### **BASIS OF VALUATION**

Our valuation is our opinion of the Market Value which is defined in accordance with the HKIS Valuation Standards of the Hong Kong Institute of Surveyors to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market Value is understood as the value of an asset and liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value.

**VALUATION METHODOLOGY**

**The Cost Approach**

The cost approach begins with the determination of land value, which is valued by the direct comparison method where comparison based on prices realized on actual sales or market price information of comparable land parcels is made. Comparable land parcels of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each land use rights interest in order to arrive at a fair comparison of land value.

Once land value has been determined, reproduction or replacement costs of the improvements are estimated as if the improvements were new. The estimate is then further adjusted for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence.

The depreciated replacement cost establishes value based on the cost of reproducing or replacing the property, less depreciation from physical deterioration, and functional and economic/external obsolescence, if present and measurable.

Cost of Replacement New is defined as the estimated amount required to replace the property at one time with a modern new unit using the most current technology and materials that will duplicate the production capacity and utility of an existing unit at current market prices for materials, labor, manufactured equipment, contractors' overheads and profit, and fees, but without provision for overtime, bonuses for labor, or premiums for material or equipment.

Physical Deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional Obsolescence is the loss in value caused by conditions within the asset such as changes in design, materials, or processes that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/External Obsolescence is an incurable loss in value caused by negative influences outside of the asset itself, such as general economic conditions, availability of financing, or inharmonious property uses.

The cost approach generally provides a meaningful indication of the value of land improvements, special buildings, special structures, and special machinery and equipment associated with a viable business or justified by economic demand.

---

**APPENDIX III**

**PROPERTY VALUATION**

---

**TITLE INVESTIGATION**

We have been provided with copies of documents in relation to the title of the property interests. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group.

We also relied to a considerable extent on the PRC legal opinion given by the Group’s legal adviser, Shu Jin Law Firm on the PRC law as to the validity of the title of the owners to the relevant property interests.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificate.

**ASSUMPTIONS**

Our valuation has been made on assumptions that the owners sell the property interests on the market in its existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect its value of the property interests.

No allowance has been in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the owner of the property interests has free and uninterrupted rights to use, lease or mortgage the property interests for the whole of the unexpired term of its respective land use rights. We have also assumed that the property interests are freely disposable and transferable.

We have valued the property interests on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the land parcels are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificate.

Other special assumptions and qualifications of the Property, if any, have been stated in the footnotes of the valuation certificate.

**LIMITING CONDITIONS**

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, construction cost, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

Our Miu Go (*note 2*) has inspected the Property included in the attached valuation certificate on May 16, 2014. No structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

**REMARKS**

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of [Redacted], Chapter 5 and Practice Note 12 to the [Redacted], and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

We hereby certify that we have neither a present nor a prospective interest in the property interest or the value reported. This valuation report is issued subject to our Assumptions and Limiting Conditions.

Unless otherwise stated, all monetary amount stated in this report is in Renminbi (RMB).

We enclose herewith our valuation certificate.

Yours Faithfully,  
For and on behalf of  
**American Appraisal China Limited**  
**Calvin K.C. Chan**  
MRICS, MHKIS, RPS (GP), MCIREA, CFA  
*Vice President*

*Notes:*

1. Mr. Calvin K. C. Chan, who is a Chartered Surveyor and Registered Professional Surveyor, has over 18 years' experience in valuation of properties in Hong Kong and the PRC. Mr. Chan has been admitted to the Hong Kong Institute of Surveyors' approved List of Property Valuers to undertake valuation for incorporation or reference in [Redacted] valuation in connection with [Redacted].
2. Ms. Miu Go is an Assistant Valuer of the Real Estate Valuation Group of American Appraisal China Limited and has over two years' experience in valuation of properties in Hong Kong and the PRC. She graduated from City University of Hong Kong with a Bachelor of Science (Honours) in Surveying.



APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2014 (RMB)						
<p>An Industrial Complex located at Xihuan Road, Hengli Town, Dongguan City, Guangdong Province, the PRC</p> <p>中國廣東省東莞市橫瀝鎮西環路之廠房</p>	<p>The Property comprises two land parcels with office, workshops, pump house, etc. erected thereon, which were completed between 2005 and 2011.</p> <p>As provided by the Company, the total site area is about 116,026.64 sq.m. and the total gross floor area is about 40,076.89 sq.m. The breakdown of the total gross floor area breakdown is set out below:</p> <p style="text-align: center;"><b>Gross Floor Area (“GFA”) (sq.m.)</b></p> <p style="text-align: center;"><b>Approx.</b></p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-left: 20px;">Phase I</td> <td style="text-align: right;">11,316.49</td> </tr> <tr> <td style="padding-left: 20px;">Phase II</td> <td style="text-align: right;"><u>28,760.40</u></td> </tr> <tr> <td style="padding-left: 20px;">Total</td> <td style="text-align: right;"><u>40,076.89</u></td> </tr> </table> <p>The land use rights of the Property have been granted for a term of 50 years expiring on June 29, 2057 and January 20, 2064 for industrial use.</p>	Phase I	11,316.49	Phase II	<u>28,760.40</u>	Total	<u>40,076.89</u>	<p>The Property was occupied by the Group for industrial use.</p>	<p>163,920,000</p>
Phase I	11,316.49								
Phase II	<u>28,760.40</u>								
Total	<u>40,076.89</u>								

Notes:

- Pursuant to the State-owned Land Use Certificates (國有土地使用證), Dong Fu Guo Yong (2011) Di Te No. 192 and Dong Fu Guo Yong (2014) Di Te No. 54 (東府國用(2011)第特192號和東府國用(2014)第特54號), issued by People’s Government of Dongguan City (東莞市人民政府) dated August 19, 2011 and March 13, 2014, the land use rights of the Property with site areas of 93,731.64 sq.m. and 22,295 sq.m. respectively are held by Dongguan Eco-Tech Environmental Power Company Limited (東莞市科偉環保電力有限公司) (“Eco-Tech”) for terms expiring on June 29, 2057 and January 20, 2064 respectively for industrial use.

**APPENDIX III**

**PROPERTY VALUATION**

2. Pursuant to the Realty Title Certificates (房地產權證) issued by the Dongguan City Real Estate Management Bureau (東莞市房產管理局) dated November 22, 2013, December 31, 2013 and June 4, 2014 respectively, 12 building ownership rights of the Property are held by Eco-Tech for non-residential use. The salient details of the certificates are as follows:

	<b>Building Names</b>	<b>Realty Title Certificate No.</b>	<b>GFA (sq.m.) Approx.</b>
	Phase I		
1.	辦公樓 Office Building	粵房地權證莞字第2900588669號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900588669	1,679.99
2.	綜合樓 Comprehensive Building	粵房地權證莞字第2900588670號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900588670	2,160.40
3.	主工房汽機部分 Main Factory Turbine Section	粵房地權證莞字第2900588671號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900588671	5,717.63
4.	綜合水泵房 Comprehensive Pump House	粵房地權證莞字第2900604570號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604570	903.65
5.	壓縮空氣站 Compressed Air Station	粵房地權證莞字第2900588678號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900588678	392.00
6.	機修及材料庫 Machine Repair and Material Warehouse	粵房地權證莞字第2900588648號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900588648	462.82
		Sub-total	11,316.49
	Phase II		
7.	主廠房 Main Factory	粵房地權證莞字第2900657054號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900657054	22,186.00
8.	汽機間 Turbine Room	粵房地權證莞字第2900604571號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604571	3,262.46
9.	主控樓 Control Building	粵房地權證莞字第2900604572號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604572	1,426.53
10.	滲漏液處理車間 Leachate Treatment Workshop	粵房地權證莞字第2900604576號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604576	777.29
11.	滲漏液收集池 Leachate Collection Tank	粵房地權證莞字第2900604574號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604574	464.00
12.	檢修車間 Repair Workshop	粵房地權證莞字第2900604573號 Yue Fang Di Quan Zheng Guan Zi Di No. 2900604573	644.12
		Sub-total	28,760.40
		<b>Total</b>	<b><u>40,076.89</u></b>

3. Pursuant to the Maximum Loan Amount Contract (最高額借款合同), Contract No.: HT2014071100000001 entered into between Dongguan Rural Commercial Bank Corporation Limited - Hengli Branch (東莞農村商業銀行股份有限公司橫瀝支行) (“Lender”) and Eco-Tech (“Borrower”) dated June 18, 2014, the maximum loan amount provided from Lender to Borrower shall not exceed RMB300,000,000 commencing on June 18, 2014 and expiring on June 17, 2022.
4. Pursuant to the Maximum Guarantee Amount Contract (最高額保證擔保合同), Contract No.: DB2014071600000111 entered into between Dongguan Rural Commercial Bank Corporation Limited - Hengli Branch (東莞農村商業銀行股份有限公司橫瀝支行) (“Creditors”) and Eco-Tech (“Warrantor”) dated June 18, 2014, the maximum debt principal amount shall not exceed RMB300,000,000 commencing on June 18, 2014 and expiring on June 17, 2022.
5. Pursuant to the Encumbrances Certificate (他項權利證書), Yue Fang Di Ta Xiang Quan Zheng Guan Zi Di No. 2900304791 (粵房地他項權證莞字第2900304791號), issued by the Dongguan City Real Estate Management Bureau (東莞市房產管理局) updated on July 24, 2014, the land use rights with site area of 93,731.64 sq.m. and 11 buildings which include items 1-6 and 8-12 as mentioned in note (2) above erected thereon with total GFA of 17,890.89 sq.m. have been mortgaged to Dongguan Rural Commercial Bank Corporation Limited - Hengli Branch (東莞農村商業銀行股份有限公司橫瀝支行).

**APPENDIX III**

**PROPERTY VALUATION**

6. Pursuant to the Building Rental Registration Record Certificates (房屋租賃登記備案證明) issued by the Dongguan City Real Estate Management Bureau (東莞市房產管理局) dated May 29, 2014 and June 6, 2014 and Dongguan City Non-residential Building Lease Agreements (東莞市非住宅房屋租賃合同), entered into between Eco-Tech (“Lessor”) and Dongguan Kewei Environmental Power Company Limited (東莞市科維環保電力有限公司) (“Kewei”) (“Lessee”) dated May 27, 2014 and June 5, 2014, 6 buildings of Phase II Property with total GFA of 28,760.40 sq.m. were leased from the Lessor to Lessee commencing on June 1, 2014 and June 10, 2014, and expiring on April 30, 2033 for production purpose at total annual rent of RMB400,000 exclusive of water, electricity and other expenses. The salient details of the certificates and lease agreements are as follows:

	<b>Building Names</b>	<b>Building Rental Registration Record Certificate No.</b>	<b>GFA (sq.m.) Approx.</b>	<b>Annual Rent (RMB)</b>
1.	主廠房 Main Factory	東房租登2900000834號 Dong Fang Zu Deng No. 2900000834	22,186.00	311,900
2.	汽機間 Turbine Room	東房租登2900000825號 Dong Fang Zu Deng No. 2900000825	3,262.46	44,000
3.	主控樓 Control Building	東房租登2900000823號 Dong Fang Zu Deng No. 2900000823	1,426.53	19,000
4.	滲漏液處理車間 Leachate Treatment Workshop	東房租登2900000824號 Dong Fang Zu Deng No. 2900000824	777.29	10,000
5.	滲漏液收集池 Leachate Collection Tank	東房租登2900000827號 Dong Fang Zu Deng No. 2900000827	464.00	6,300
6.	檢修車間 Repair Workshop	東房租登2900000826號 Dong Fang Zu Deng No. 2900000826	644.12	8,800
		<b>Total</b>	<b>28,760.40</b>	<b>400,000</b>

7. Eco-Tech is an indirect wholly owned subsidiary of the Company.

8. Kewei is an indirect wholly owned subsidiary of the Company.

9. The PRC legal opinion states, inter alia that:

- (i) Eco-Tech legally obtained the land use rights and building ownership rights of the Property.
- (ii) Eco-Tech is entitled to occupy, use, lease, transfer, mortgage or by other means to deal with the Property. When Eco-Tech deals with the leased or mortgaged Property, the relevant conventions of the lease agreement or mortgage contract shall be complied with.
- (iii) Save for the aforesaid mortgage as mentioned in note (5), the Property is not subject to other litigations, administrative penalties, seizures, realizations or disputes.
- (iv) The lease agreements as mentioned in note (6) above are valid and legally binding. Within the lease term, there are no legal obstacles for Kewei to use the leased property, in accordance with the conventions of the lease agreements.



## Technical Assessment Report

Effective date: 24 Sep 2014

Signature date: [Date]

Canvest Environmental Protection Group Company Limited



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**APPENDIX IV**

**TECHNICAL REPORT**

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**EXECUTIVE SUMMARY**

Mott MacDonald (Beijing) Limited (hereafter the “Consultant”) was commissioned by Canvest Environmental Protection Group Company Limited (hereafter Canvest, together with its subsidiaries, the “Canvest Group”), to carry out on-site visits and documentations review on four waste to energy (hereafter WTE) plants in Guangdong Province. These WTE plants are:

- Dongguan Kewei Environmental Power Company Limited (hereafter Kewei WTE Plant)
- Dongguan China Scivest Environmental Power Company Limited (hereafter China Scivest WTE Plant)
- Dongguan Eco-Tech Environmental Power Company Limited (hereafter Eco-Tech WTE Plant)
- Zhanjiang Yuefeng Environmental Power Company Limited (hereafter Zhanjiang WTE Plant)

Kewei WTE Plant and China Scivest WTE Plant have been running moving grate incineration technology. Eco-Tech WTE Plant will also use the moving grate incineration technology after technological upgrade. Although the Zhanjiang WTE Plant is under construction, it plans to use the moving grate incineration technology in accordance with the review of the feasibility study. Moving grate incineration technology is a mature technology, and has been widely used in China and around the world. Moving grate incineration technology adapts to the characteristics of Chinese domestic waste, high moisture, low calorific value, to ensure the waste continuous turning and fully contact with air for full combustion.

Chongqing Sanfeng Covanta introduced and manufactured the moving grate incinerators. The SITY2000, a mature waste incinerator technology, is widely applied in the world. This incinerator adopted this technology has an especially good market share in Chinese market. It has a good ability to adapt to Chinese waste, and has a stable operation and track record of long annual utilization hours. The Kewei WTE Plant and China Scivest WTE Plant which are operating use this type of technology incinerator (INC 600, incineration model), and the Eco-Tech WTE Plant (INC 600) which is under technological upgrade and Zhanjiang WTE Plant (INC 500) which is under construction also plan to adopt this incinerator.

In the biomass and WTE power generation fields, Nantong Wanda Boiler Company has a good reputation. The product has been applied in several biomass power generation and WTE power generation projects and has a stable operation and track records of long annual utilization hours. Three Canvest WTE plants use this type of waste Heat Recovery Steam Generator (hereafter HRSG).

The Guangzhou Czech Skoda designed and produced N15-3.9/395 type steam turbine which has been widely used in Europe and Asia, and has a good record of operation. Qingdao Jieneng steam turbines have a major share of the small steam turbine market in China, and also have a good track record.



The Consultant believes that these equipment suppliers have the capability of producing and commissioning their equipment. All main equipment is reliable under rated conditions and reasonable maintenance conditions, and, can achieve the designed operating hours and required stable power output.

Flue gas emissions of Kewei WTE Plant and China Scivest WTE Plant meet the national standards GB18485-2014. The designed heavy metal emission factor of Eco-Tech WTE Plant for technological upgrade by supplier did not satisfy the EIA and national standard requirements, however the supplier had ensured that the actual heavy metal emission factor will meet the design requirement of EIA in August 2014. The flue gas dust removal scheme of Zhanjiang WTE Plant from its feasibility study is reasonable and effective, and can greatly reduce the impact on the environment. The actual emission of the operating Kewei WTE Plant and China Scivest WTE Plant meets national standards according to the environmental monitoring report issued by corresponding testing institutions.

It is noted that Kewei WTE Plant and Eco-Tech WTE Plant are only separated by a single wall. There will be 3,600t of waste collected every day after 2015. Large quantities of waste transportation vehicles will cause a certain impact on the surrounding environment. Individual vehicles may cause disposal and leakage, resulting in dissatisfaction from the surrounding residents; the Consultant advises Canvest to take the potential impact of the plant’s normal operation on the neighbourhood into consideration.

Kewei WTE Plant and China Scivest WTE Plant have good operation and management methods. The production system and the emergency treatment plan are completed. All the records and archives are placed in order with clean production environment. There is no record of major accidents in production; equipment is running well, with sufficient fuel supply. The annual utilization hours and power output are above the national average level. The Consultant also noted that China Scivest WTE Plant had improved its safety management, safety signs and the necessary warning signs to comply with the safety management regulations based on the Consultant’s advices.

Waste in China has certain characteristics such as high moisture, low calorific value, and wide differences in calorific value. This is the main challenge of power plant operation management. In some occasions waste treatment facilities can meet the design requirements, but the power output is slightly lower than the designed value, mainly because of high water content of the waste. With the rapid development of the economy in China, residents’ lifestyles are changing. This together with increased household waste classification, will found that waste moisture will gradually be reduced, thus improving the calorific value of waste.

These four WTE plants are located at the Southern Grid Group sector - Guangdong Power Grid Corporation. The area’s grid is of a stable structure, with gradually increasing electricity consumption. There is a shortage of electricity supply in this area, with a large demand for power, a trend that will continue for a long foreseeable period of time. As power consumption in the area is strong, there is no concern for power demand curtailment.

The majority of the information from which the report was compiled comprises of documentations provided by Canvest, and discussions and meetings with relevant Canvest staff.

The Consultant has selected a core team of specialists to complete the technical assessment for Canvest’s WTE assets. The core team members are presented below:

**Steven Cao**, BSc in Power System and Automation and MSc in Power Engineering, has in depth understanding in energy system analysis, renewable energy and the development strategy of electric enterprise with over 15-year solid industrial, commercial and research experience in energy sector in and abroad. He has been involved in various energy projects as project engineer, for instance, primary electrical system design, sustainable development of power network, economic operation of transmission line, smart grid and distribution network reconstruction, due diligence for power projects and electricity business investment analysis, etc.

**Karryn Chen**, MSc in Environmental Engineering, MSc in Energy Research of the University of Melbourne, has in depth understanding in renewable energy and concentrates on system design and review for renewable energy. She had involved in mass energy storage station and application solution research, renewable energy enterprise Hong Kong IPO technical assessment project for Jingneng and Huadian Fuxin covering wind, hydro and thermal, assets acquisitions technical due diligence project for solar and biomass, etc.

**Li Huicong**, Mechanical Engineer who has B.E. of Hebei University of Technology, Thermal Power Engineering, National First-Class Architect, has more than 10 years’ experience in energy sector, and specializes in boiler system design review for coal-fired power plant, facilities installation, generator installation and commissioning, CCS, etc. He has undertaken a number of power projects, including construction of 30MW to 600MW sub-critical and super-critical coal-fired generation units, construction of biomass power plant, CCS, etc. which most located in China.

**Songchuan Fang**, BSc Analytical Chemistry, and MSc Environmental Remote Sensing, has over 30 years’ experience in environmental study. Particular experience in regional environmental impact assessment (EIA); site operation/facility environmental auditing; GIS (Geographic Information Systems) and remote sensing applications, institutional study, etc. Experience in environmental investment projects, including input for diverse clients such as governments, enterprises (Chinese and overseas), international organisations/banks, and bilateral financings. Detailed understanding of multidisciplinary approach to infrastructure and urban environment project, particularly financed by the World Bank and Asian Development Bank (ADB).

**Shixuan Deng**, BSc Environmental Engineering of Beijing Technology and Business University, and MSc Environmental Sciences of Netherlands Wageningen University and Research Centre, has three year’s experiences on project management of projects which were financed by World Bank. One year’s experience on chemical and biological laboratory research. More than three year’s experiences on water supply and wastewater treatment.

**Yanjun Miao**, over eleven years’ experience in China power sector, had engaged in the installing and commissioning of power plant equipment, familiar with related installation standards for quality inspection. Fulfilling EPC (engineering, procurement, and construction) contracts as an electrical engineer by providing clients with knowledge and experiences.

**Simon Xu**, over 8 years professional working experience, two years power instruments inspection (site) and testing experiences. Mainly work on quality planning review, site instruments inspection and supplier assessments. Five years as a supplier quality engineer working for Highways Agency (HA), excellent knowledge of new generation motorway communication system equipment, telecoms and associated mechanical equipment with extensive engineering experiences. Including supplier management, product development verification, product inspection, report supplier quality performance in written and associated quality control works.

**Yan Xudong**, Bachelor Degree of chemical technology and engineering, Registered Environmental Protection Engineer, has over 10 years work experience in environmental protection industry, especially in the flue gas treatment and dust removal, SCR/SNCR de-NO<sub>x</sub> process and WFGD/DFGD process, huge experience on system design, bidding, and project execution for domestic and international power projects. Take part in or lead several domestic and oversea large flue gas purification projects as Process Engineer, Engineer Manager and Project Manager.

## **1. INTRODUCTION**

### **1.1 Overview**

Mott MacDonald (Beijing) Limited has been appointed by Canvest to act as the Technical Consultant on the Company’s [Redacted] (hereafter [Redacted]) project.

The Consultant will be compensated with professional fees for the services and technical advice provided. However, none of the Consultant’s directors and staff who contributed to the report has any interest in:

- Canvest Environmental Protection Group Company Limited;
- the asset portfolio that was subject to the technical assessment; or
- the outcome of the [Redacted].

Prior to the issuance of a final report, Canvest and its advisers were provided with the draft of a technical report only for the purpose of confirming the accuracy of data used and factual material.

Mott MacDonald is a wholly independent international company, with headquarters in the UK, annual turnover in excess of 1 billion Euros, over 15,000 staff and global experience spanning 140 countries. Strong technical excellence, multi-disciplinary professional advantage, wide service range and worldwide resources made Mott MacDonald as one of the top global consulting corporations, providing solutions for management, engineering and development to many government departments and private clients. Mott MacDonald has operated business in Beijing, Hong Kong and Shanghai for over 50 years, and completed hundreds of consultant projects. Our service covers many aspects including power, transport, building, water, environment, management, mining, health, education, industry and communications.

Mott MacDonald has undertaken over eighty-five power projects in China totally over 36 GW, including wind, hydro, solar, biomass, tidal, waste to energy, gas-fired and coal-fired power plants, integrating energy solutions, and power transmission and distribution.

The Consultant carried out an independent technical assessment of Canvest waste to energy power plant assets, (hereafter WTE plants). The review of WTE plants includes:

- Municipal solid waste (hereafter MSW) resources;
- Power generation, availability, operation and maintenance arrangements;
- Boiler and steam turbine technologies;
- Grid connections and compliance with grid codes, environmental protection; and
- Environment health and safety.

The majority of the information from which the report was compiled comprises of documentations provided by Canvest, and discussions and meetings with relevant Canvest staff. The Consultant’s professional judgement was exercised with regards to the validity and use of all information submitted from external sources. The Consultant’s substantial knowledge of the Chinese power industry has been utilised throughout the independent technical assessment process.

The progress of the technical assessment was accomplished in China, of which the key procedures included but were not limited to site inspection, data collection, discussion, analysis, and report drafting.

## **1.2 Assets Overview**

As at date of the report, Canvest owns 2 operating WTE plants in Dongguan namely, Kewei WTE Plant and China Scivest WTE Plant of which the total installed capacity is 72MW. Canvest also owns a WTE plant located in Hengli Town Dongguan namely, Eco-Tech WTE Plant, which is currently implementing technological upgrade, with installed capacity of 36MW. There is a WTE plant under construction located at Zhanjiang with a designed installed capacity of 30MW. All the projects are managed by the subsidiaries of Canvest in Guangdong Province, China.

Kewei WTE Plant with an installed capacity of 30MW and a daily waste processing capacity of 1,800t started construction in 2010 and due completed in 2011. The Kewei WTE Plant has 3 sets of 600t/d moving grate incinerators, 3 sets of 400t/d flue gas treatment systems, 2 sets of 15MW steam turbine generators. The project is designed to accommodate an annual processing waste volume of 547,500t, however the actual annual waste processing was 586,640.7t (year 2013). Annual designed generation capacity is 253,400MWh, however the actual generating capacity was 238,740MWh (year 2013).

China Scivest WTE Plant with an installed capacity of 42MW is based on the old factory which was built in 2003. In 2011, a plant technological upgrade was carried out, which returned to operation in 2013. This designed daily waste processing capacity is 1,800t. There are 3 sets of 600t/d moving grate incinerators and 3 sets of 400t/d flue gas treatment systems. The steam turbine and generator unit is  $2 \times 15\text{MW} + 1 \times 12\text{MW}$ . As China Scivest WTE Plant has only commenced commercial operation in August 2014, there is no yearly power generation data available for assessment. Its 12MW generator was purchased as used equipment in 2005, which was manufactured in 1973.

Eco-Tech WTE Plant with installed capacity of 36MW stopped operation and carried out a technical upgrade in April 2014. This plant planned removal of 4 circulating fluidized bed boilers and auxiliary systems, upgrading to a designed daily waste treatment capacity of 1,800t, annual processing of 600,000t. The upgraded plant will equip  $3 \times 600\text{t/d}$  moving grate incinerators and use rotary spray type semi dry reaction towers and activated carbon absorption and bag dust collector method to purify flue gas. Now the plant is at demolition stage, the main equipment tendering process has been completed. The plant is planned to commence trial operation in 2015.

Zhanjiang WTE Plant with installed capacity of 30MW is still in the early stages of project development. It is going to operate under a BOT model, using 28 years of government operation license (including a construction phase of 30 months). The project is located in Zhanjiang City,

Guangdong Province. According to the feasibility study, after the completion of construction, daily waste processing will be 1,500t, with 3 sets of moving grate incinerators and 2 sets of steam turbine generator units. The project construction consists of two phases: first phase is a scale for disposal of waste of 1,000t/d, with 2 units of 500t/d moving grate incinerator and two 15MW steam turbine generator units. The second phase is the expansion of waste of 500t/d and an additional moving grate incinerator.

### **1.3 Report Structure**

This report provides a detailed review of key information relating to the construction and operation of the projects. It is structured as listed below:

- Project Participants;
- MSW Assessment;
- WTE Plants Technical Assessment;
- Appendices; and
- Glossary.

### **1.4 Status of Documentations**

This Report presents a review of documentation and other information available at the date of this report. The Consultant has collected all available documentations and information from Canvest, and visited the sites at Dongguan. All primary technical tasks have been taken into consideration, and complete technical analysis and assessments have been implemented. After adequate communications with relevant parties, the Consultant issued the final version of this report.

## **2. PROJECT PARTICIPANTS**

### **2.1 Introduction**

This section of the report reviews the project participants and considers their suitability and capability for the roles envisaged. The report considers Canvest and main suppliers of boiler, steam turbine, generator, and auxiliary equipment. Information has been gathered from our site visit, discussion with the participants and also from a review of information available on the internet. The Consultant has not considered the strength of any participants or their suitability from a financial standpoint.

### **2.2 About WTE**

Incineration, the combustion of organic material such as waste with energy recovery, is the most common WTE implementation. The waste to energy industries have been evolving for nearly 100 years. New technologies in waste to energy fields have progressed dramatically for the past 5 to 8 years.

In general, WTE plants generate electricity through the following process. MSW vehicles from waste transfer stations enter the plant through weighing bridge. If the vehicle is weighed successfully, then move to discharge platform to unload waste into the waste storage pool. The controller operates a grab crane to transfer waste to the hopper and fall to the feeding system for incineration process. High temperature flue gas produced by the combustion of waste was cooled by HRSG and gets into the flue gas treatment system. HRSG absorbs the heat from high temperature flue gas to produce superheated steam for power generation of steam turbine generator. Each incinerator is equipped a set of flue gas treatment system, including semi-dry reaction tower + active carbon adsorption + bag filter. Semi-dry reaction tower removes acidic substances from flue gas, active carbon absorbs and removes heavy metal and dioxins, and bag filter collects dust and other reaction products. The flue gas after treatment and meeting the discharge standards would emit to atmosphere through chimney. Leachate generated in waste storage pool after wastewater treatment system and meeting the standards would be discharged or recycled. Bottom ash from waste combustion in incinerator would be transported away from the plant after cooling, while the fly ash would be solidified and disposed by licenced hazardous waste treatment contractor.

### **2.2.1 Fluidized Bed Combustion**

Fluidized bed combustion (hereafter FBC) is a combustion technology used to burn solid fuels.

In its most basic form, fuel particles are suspended in a hot, bubbling fluidity bed of ash and other particulate materials (sand, limestone, etc.) through which jets of air are blown to provide the oxygen required for combustion. The resultant fast and intimate mixing of gas and solids promotes rapid heat transfer and chemical reactions within the bed. FBC plants are capable of burning a variety of low-grade solid fuels, including most types of coal and woody biomass, at high efficiency and without the necessity for expensive fuel preparation (e.g. pulverising). In addition, for any given thermal duty, FBCs are smaller than the equivalent conventional furnace, so may offer significant advantages over the latter in terms of investment cost and flexibility.

FBC reduces the amount of sulphur emitted in the form of  $SO_x$  emissions. Limestone is used to precipitate out sulphur during combustion, which also allows more efficient heat transfer from the boiler to the apparatus used to capture the heat energy (usually water tubes). The heated precipitate coming in direct contact with the tubes (heating by conduction) increases the efficiency. Since this allows power plants to burn at cooler temperatures, less  $NO_x$  is emitted. However, burning at low temperatures also causes increased polycyclic aromatic hydrocarbon emissions. FBC boilers can burn fuels other than coal, and the lower temperatures of combustion ( $800^{\circ}C / 1,500^{\circ}F$ ) have other added benefits including stability of furnace combustion, and easy control of furnace temperature as well.

As present, most of the FBCs for waste incineration request additional coal to assist combustion.

### **2.2.2 Moving Grate Incinerator**

For moving grate incinerator (hereafter MGI), waste passes through the hopper into the downward inclined moving grate (fire grate is separated into three zones: drying zone, combustion zone, and burnout zone). The movement between moving grates will push the waste to the downward

direction and through the three zones in sequence, until burnout. Combustion air inlets from beneath the fire grate and mixes with the waste. High temperature flue gas heats the surface of the furnace and will be cooled at the same time. Finally, the flue gas is discharged after the treatment. Moving grate incinerators have below advantages:

- Good operational reliability, low failure rate, lower labor power; lower auxiliary power;
- Large capacity of a single unit;
- Low volumes of flue gas, less dust equates to lower investment of flue gas purification systems and subsequent treatment of fly ash;
- Does not require waste pre-treatment;
- A small heating surface;
- Do not require mixture of fuel such as coal; and
- low ash production rate.

### **2.2.3 Refuse-Derived Fuel**

Refuse-derived fuel (hereafter RDF) or solid recovered fuel / specified recovered fuel (hereafter SRF) is a fuel produced by shredding and dehydrating solid waste (municipal solid waste, hereafter MSW) with a waste converter technology. RDF consists largely of combustible components of municipal waste such as plastics and biodegradable waste. RDF processing facilities are normally located near a source of MSW and, while an optional combustion facility is normally close to the processing facility, it may also be located at a remote location.

### **2.2.4 Others**

There are a number of other new and emerging technologies that are able to produce energy from waste and other fuels without direct combustion:

#### **Thermal Technologies**

- Gasification (produces combustible gas, hydrogen, synthetic fuels)
- Thermal depolymerisation (produces synthetic crude oil, which can be further refined)
- Pyrolysis (produces combustible tar/bio oil and chars)
- Plasma arc gasification process or plasma gasification process (hereafter PGP) (produces rich syngas including hydrogen and carbon monoxide usable for fuel cells or generating electricity to drive the plasma arc, usable vitrified silicate and metal ingots, salt and sulphur)



### **Non-Thermal Technologies**

- Anaerobic digestion (Biogas rich in methane)
- Fermentation production (examples are ethanol, lactic acid, hydrogen)
- Mechanical biological treatment (MBT)
- MBT + Anaerobic digestion
- MBT to Refuse derived fuel

In China, most of WTE power plants are using FBC and MGI technology. RDF is more popular in the USA, UK and other developed countries at this moment, but waste classification is still an issue and we believe RDF still needs a long time to be deployed fully in China.

### **2.3 Environment Protection and Dioxin Issue in WTE Plant**

One of the key issues of waste to energy and incinerator plants is the increased risks of dioxins in the environment. Whilst incinerators have been used widely as a measure against landfill, with the added benefit of power production, the technology is not without localised health issues.

Use of incinerators to burn MSW can result in an increase in carcinogenic particles known as dioxins.

Dioxins are a family of 75 polychlorinated dibenzo-p-dioxins (hereinafter PCDDs). This compound is carcinogenic to humans and is an endocrine disruptor. It is one of the most toxic chemicals currently known.

It is well known that they chiefly appear in the environment due to the increasing use of incinerators. Dioxins are not normally present in waste, but they are formed when chlorine-containing organic substances (e.g. PVC) are burned.

If combustion takes place at temperatures of about 850°C, any dioxins already formed are destroyed, but it has been found that they can re-form again post-combustion. Adrian Cunliffe and Paul Williams of the University of Leeds in the UK asserted in their 2007 study that PCDD's and related chemicals polychlorinated dibenzofurans (hereafter PCDFs), of which there are 135 of harmful ingredients can be found in the fly ash deposits of post-combustion plant of incinerators. This they claim can “result in the release of significant amounts of PCDD/PCDF to the flue gas stream”.

Great care should be taken to measure accurate PCDD/PCDF levels in the fly ash deposits from the plants in this report. The Consultant recommends the standard measure of the destruction of dioxins by high combustion temperatures of more than 850 °C, for longer than 2 seconds as a measure to destroy dioxins formed in the waste stream when burnt with PVC.

## **2.4 Canvest Environmental Protection Group**

The Canvest Group was found in June 2003 when the Eco-Tech WTE Plant was established. Kewei WTE Plant, the second operating plant of the Group had been established in 2009. China Scivest WTE Plant had been acquired in January 2014. The Zhanjiang WTE Plant was bided by Eco-Tech, Kewei, and High Point jointly in 2012, the Canvest Group held 55% of the equity interests of Zhanjiang Project. Until the latest practicable date, the Canvest Group has four WTE Plants namely Eco-Tech, Kewei, China Scivest, and Zhanjiang.

Based on these WTE power plants review, we consider that Canvest is capable of acting as the owner and operator of the WTE power plants.

## **2.5 Incinerator & Boiler Suppliers**

### **2.5.1 Chongqing Sanfeng Covanta Environmental Industry Co., Ltd**

The company was set up in 1998. It absorbed the advanced operation and maintenance (hereafter O&M) expertise from the global WTE industrial magnate - Covanta Holding Corporation and became a Sino-US enterprise.

As an important WTE incinerator manufacturer, Sanfeng Covanta introduced world-class WTE technology from Martin GmbH since its establishment. In Canvest projects, Sanfeng Covanta provided SITY2000 incinerators in Kewei WTE Plant and China Scivest WTE Plant. SITY2000 technology can adapt characteristics of MSW in China. This includes high moisture, low calorific value, no detailed classification and pre-treatment and direct combustion. Waste treatment capacity of 120 ~ 1,000t/d, good incineration performance, bottom ash and unburned performance is good. Unburned residue rate is 0.7% ~ 2%, fly ash less than 3g/m<sup>3</sup>, flue gas emissions also meet the environmental standards in China and Europe.

The following are the main parameters of SITY2000:

- Annual operation hours above 8,000h;
- Waste heat range of 4,500 ~ 10,000kJ/kg; waste incineration time 1.5 ~ 2.5h;
- Slag clinker ignition loss < 3%; and
- The period that flue gas stays in the furnace when it is higher than 850 °C, time ≥ 2seconds.

SITY2000 is a mature WTE incinerator technology, and is widely applied around the world. Especially the combustion furnace has enjoyed a good market share in China market. It has a good ability to adapt to the characteristics of MSW in China, and has a solid record of stable operation and long annual utilization hours. The Consultant is satisfied with this equipment.

The Consultant understands that Kewei WTE Plant, China Scivest WTE Plant, and Eco-Tech WTE Plant use incinerators from this company. This causes us no concern.

#### **2.5.2 Nantong Wanda Boiler Co. Ltd**

Nantong Wanda Boiler Co., Ltd. is a private joint-stock enterprise which was established based on the former Nantong Boiler Works that was founded in 1958. It is a medium scale boiler and pressure vessel manufacturer, holding a boiler manufacturing license and first class and second class certificates of pressure vessel design, manufacturing license, American Society of Mechanical Engineers (hereafter ASME) “S” and “U” stamp certificate.

In biomass power generation and waste heat generation boiler fields, Nantong Wanda Boiler Co., Ltd has a good reputation. The product has been applied in several biomass power generation and waste power generation projects, and has stable operation and long annual utilization hours. The Consultant is satisfied with company capabilities and track records.

The Consultant understands that Kewei WTE Plant, China Scivest WTE Plant, and Eco-Tech WTE Plant use HRSG from this company. This causes us no concern.

### **2.6 Steam Turbine Supplier**

#### **2.6.1 Guangzhou SKODA-JINMA Turbine Ltd**

Guangzhou SKODA-JINMA Turbine Ltd. Co. is a turbine manufacturer established in February 1995 by SKODA of The Czech Republic with more than 90 years history of turbine production, and Guangzhou Steam Turbine Works with over 20 years’ experience of turbine manufacturing. SKODA holds the main share of the company and introduces its know-how of design and manufacture of turbines and invests advanced machining equipment into the company. SKODA experts manage the company and supervise the quality of the products. The main products are various types of steam turbines up to 50MW unit capacity for various parameters.

N15-3.9/395 type steam turbine of Czech Skoda design and production has been widely used in Europe and Asia, has a good record of operation and occupy a decent market share in China. The turbine has been adopted by Canvest Group’s WTE Plants. The turbine has the following characteristics:

- Impulse stage design makes each pressure stage bear more enthalpy drop, so the total numbers of pressure stages are only half of the reaction turbine.

- Most of the pressure difference will impact on the nozzle, only a very small pressure acts on the rotor blade. Therefore, the thrust of the rotor effect on the axial bearing is relatively small; load changes will not cause huge changes in axial bearing.
- The small forged and seamless rotator reduces the thermal stress in order to adapt to rapid and large load changes.

The main parameters of steam turbine are:

Table 2.1: Steam Turbine Parameter of Guangzhou SKODA-JINMA

<b>Item</b>	<b>Unit</b>	<b>Data</b>
Rated Power	MW	15
Rated rotating speed	r/min	6,000
Inlet Pressure	MPa	3.9
Inlet temperature	°C	395
Inlet steam flow	t/h	73.5
Outlet pressure	kPa	7.7
Rated Voltage	kV	10.5
Power factor		80
Efficiency	%	95

Source: *Guangzhou SKODA-JINMA Turbine Ltd*

The Consultant understands that Kewei WTE Plant and China Scivest WTE Plant both use steam turbine from this company. This causes us no concern.

### 2.6.2 Qingdao Jieneng Steam Turbine Group Co., Ltd

The company is the key company in steam turbine industry in China. The main product is turbine generator at 60MW and below, annual production capacity is 5,000MW. Steam turbine products are mainly supplied to WTE plants, CCGT plants, district heating and other industries. The company’s products occupy a large proportion in the Chinese market and they are widely used by projects in Southeast Asia and Africa.

N12-3.43 type steam turbine adopted by Canvest Group is a mature product; the main parameters are as follows:

Table 2.2: Steam Turbine Parameter of Qingdao Jieneng

<b>Item</b>	<b>Unit</b>	<b>Data</b>
Rated Pressure	MPa	3.43
Rated Temperature	°C	435
Rated Speed	r/min	3,000
Rated Power	MW	12
Weight	t	45.3

Source: *Qingdao Jieneng Steam Turbine Group*

The Consultant understands that Eco-Tech WTE Plant after technological upgrade will use steam turbine from this company. This causes us no concern.

## **2.7 Generator Supplier**

### **2.7.1 Nanyang Flame Protection Group Co. Ltd.**

Nanyang Flame Protection Group Co. Ltd. has an important effect on the explosion-proof motor industry; explosion-proof electrical products occupying a large market share in China. The company can produce 60MW explosion-proof generators.

QFW-15-2 generator is a mature product; the main parameters are as follows:

Table 2.3: Generator Parameter of Nanyang Flame Protection Group

<b>Item</b>	<b>Unit</b>	<b>Data</b>
Enclosure Protection		IP44
Rated Voltage	V	10,500
Rated Speed	r/min	3,000
Rated Power	MW	15
Cooling Method		IC91W

*Source: Nanyang Flame Protection Group*

The Consultant understands that Kewei WTE Plant and China Scivest WTE Plant both use generator from this company. This causes us no concern.

## **2.8 Auxiliary Equipment Suppliers**

### **2.8.1 Wuxi Xuelang Environmental Science and Technology Limited Company**

Flue gas treatment system is provided by the Wuxi Xuelang environment science and technology limited company. Using the semi dry desulfurization method, the core equipment is a rotary atomizer provided by the Belgian KEPPEL-SEGHERS. Using activated carbon adsorption removes dioxins and heavy metals. Use of a bag filter removes dust. After the flue gas treatment system, the site data show that the flue gas emissions meet the EIA requirements.

### **2.8.2 Guangdong Water Environmental Technology Limited**

Leachate treatment system uses pre-treatment process +UASB+MBR+NF+RO. Leachate treatment system is provided by Guangdong Water Environmental Technology Limited. The discharged water quality can reach the standard of production water. Concentrated wastewater after membrane treatment will be spread back to the waste storage pit, and will then combust into the furnace. After concentrated sludge, sludge returns to the waste storage pit, into the furnace for combustion.

## **2.9 Guangdong Power Grid Corporation**

Guangdong Power Grid Corporation (hereafter GPG) is a wholly owned subsidiary of China Southern Power Grid Company Limited. In January 1, 2012, GPG incorporated Dongguan, Zhanjiang, Maoming, Foshan etc., total of 19 power supply bureaus. Guangzhou Power Supply Bureau, Shenzhen Power Supply Bureau are directly controlled by China Southern Power Grid Company Limited.

GPG is the largest provincial power grid in China at present. GPG has formed a 500kV loop network as the centre in the Pearl River Delta region, and the main network radiating to the east and west wings of China and the northern part of Guangdong. It interconnects the southwest network through “eight AC and five HVDC” high voltage lines, interconnects Hainan Power Grid through one return to 500 kV AC Power Cable, and also interconnects Hong Kong’s China Light Power System through another four return to 400kV lines and multi-circuit 132kV lines. GPG supplies electricity in Macao through three back to back to 220kV cables and four to the 110kV line.

By the end of 2012 in Guangdong Province, the installed power generating capacity was 78,101MW, 2.4% increase compared with the previous year. Of which:

- Thermal power was 57,516MW, accounting for the 73.6% of provincial installed capacity, an increase of 2.1%;
- Hydropower 8,261MW, accounting for 10.6% of installed capacity, an increase of 0.5%;
- the total installed nuclear power 6,120MW, 7.9% of installed capacity;
- Energy storage of 4,800MW, accounting for 6.2% of installed capacity; and
- Wind power, solar power and other installed capacity is 1,404MW, 1.7% of total installed capacity.

In 2012, Guangdong power grid line loss is 6.37%, an increase of 0.62% over the previous year; the facility usage is 5.4%, an increase of 0.1%.

In 2012, the provincial power generation has accumulated 364,433,000MWh, down 1.4%. Among them, thermal power generation, accumulation of 284,754,000MWh, a reduction of 6.5%, only completed 85.6% of the annual plan; the total purchased power accumulated 114,590,000MWh, an increase of 23.6%; generated and purchased power are 479,023,000MWh, an increase of 3.6%.

In 2012, Guangdong Province, the whole society electricity consumption is 461,940,000MWh, an increase of 5%; of which, electricity for industrial usage is 304,821,000MWh, an increase of 3%. The whole society electricity consumption increased steadily. Total electricity consumption of Guangdong Province ranks no.1 domestically, which growth rate is 0.5% lower than the national average growth rate, 5.5%.

In 2012, the provincial maximum electricity peak loading is 82,000MW, an increase of 6.8%; wherein, the grid company distributed maximum peak loading is 80,051MW, a record high, and an increase of 7.1%.

In 2012, the provincial new capacity is 22,816,300KVA, a reduction of 0.22%; wherein, big industry users decreased by 5.8%, general industry users decreased by 21.9%, residential electricity increased sharply by 23.7%. The cancellation capacity is 405.0800KVA, a reduction of 6.4%. The total capacity reduction is 1,371,700KVA, a reduction of 3.3%.

In 2012, Guangdong Provincial Power Grid invested 35,000kV infrastructure and more than 125 items (not including auxiliary projects). Among them, 6 of 500kV projects, 29 of 220kV projects, 80 of 110kV projects and 10 of 35kV projects. Built 35kV and above transmission line over 2,538.99km, 40 of the new 35kV and above substations with 98 units of the new main transformer with total capacity of 10,122,800KVA.

Power generated from the WTE power plants was transmitted and distributed through local power grid. The grid operators control the amount of power on-grid. Table 2.4 below lists the grid operators of each WTE Plant.

Table 2.4: Grid Operators of WTE Power Plants

No.	Name	Capacity MW	Local Grid Operator	Provincial Grid Operator	National Grid Operator
1	Kewei WTE Plant	30	Dongguan Power Supply Bureau	Guangdong Power Grid Corporation	China Southern Power Grid Co., Limited
2	China Scivest WTE Plant	42	Dongguan Power Supply Bureau	Guangdong Power Grid Corporation	China Southern Power Grid Co., Limited
3	Eco-Tech WTE Plant	36	Dongguan Power Supply Bureau	Guangdong Power Grid Corporation	China Southern Power Grid Co., Limited
4	Zhanjiang WTE Plant	30	Zhanjiang Power Supply Bureau	Guangdong Power Grid Corporation	China Southern Power Grid Co., Limited

Source: Canvest

## 2.10 Conclusion

Canvest should be aware of and ensure the destruction of dioxins and their chemical “building blocks” in waste material during combustion in incinerators. This is in order to minimise the spread of dioxins (PCDDs) from combustion in WTE plants and their reformation in fly ash.

This can be achieved through the “3-T Rule”:

- High combustion **Temperature** to maximize waste destruction: above 850°C
- Adequate combustion **Time** (usually more than two seconds) to maximize waste destruction; and
- High combustion **Turbulence** to distribute heat evenly and ensure complete waste destruction.

It is also important to prevent the conditions that favour formation of dioxins immediately following combustion. This is achieved by the following design specifications:

- Use a “fast-quench” of post-combustion gases by cooling them quickly from higher temperatures through the temperature range of approximately 400 °C down to 250°C, to avoid prolonged exposure in the temperature range known to favour dioxin formation; and
- Where possible to minimize the presence of certain metals, such as copper, on particulate matter, that are thought to facilitate dioxin formation.

In the evaluation of Kewei WTE Plant, China Scivest WTE Plant, Eco-Tech WTE Plants, and Zhanjiang WTE Plant, the equipment Canvest used and will use are widespread industry mature market equipment, such as the incinerator, HRSG, turbine and generator supplier from world famous and reputable Chinese suppliers. The Consultant believes that these suppliers have ability of producing main equipment manufacturing and commissioning. Some other auxiliary equipment is from emerging domestic private suppliers, but these suppliers have developed rapidly and sensibly. So the Consultant thinks that these suppliers are acceptable. In view of the main equipment that Canvest has provided, there are various track records of suppliers. Therefore, the Consultant thinks the main equipment is reliable under reasonable operation and with regular maintenance.

### **3. MUNICIPAL SOLID WASTE ASSESSMENT**

#### **3.1 Introduction**

##### **3.1.1 Dongguan City**

Dongguan Municipality has 4 Residential Districts and 28 Towns. Official population figure in 2013 was over 8.22 million. It was believed this figure could be bigger if the mobile population was included.

Dongguan Municipal Administration is the government authority for MSW management. Historically, all collected MSW was put into a number of landfill sites. From 2005, Dongguan city started to adopt incineration measures. Dongguan City still operates a number of solid waste landfill sites with limited capacity.

Beside National relevant Laws and regulations, relevant government regulations include:

- Guangdong Provincial Regulation for the Municipal Solid Waste Management (2001);
- Dongguan Municipal Rule for Urban Environmental Sanitation Management (2011); and
- Dongguan Municipal Guideline (tentative) for Household Solid Waste Collection (2011).



### 3.1.2 Zhanjiang City

Zhanjiang City has 4 Residential Districts, 3 county-level cities and 2 counties. The official population figure in 2013 was over 7.54 million. It was believed that this figure could be bigger if the mobile population was included. Zhanjiang Municipal Administration is the government authority for the MSW management. By August 2014, the MSW treatment method is only by landfill disposal.

Beside National relevant Laws and regulations, relevant government regulations included:

- Guangdong Provincial Regulation for the Municipal Solid Waste Management 2001.

It was noted that there is no local solid waste regulation in Zhanjiang City.

## 3.2 MSW Resources

### 3.2.1 Dongguan City

It was noted that the total daily MSW collection is estimated to be around 10,000t per day in 2014, but the amount could be seasonal. Compared with other Chinese cities, the MSW generation amount is relatively stable.

It was noted that there is another incineration project in operation in Dongguan — The Houjie WTE Plant (1,500t/d). It was also noted that the municipal government is planning another new solid waste treatment plant, as there is not enough land for the landfill in Dongguan City. The current and predicted MSW treatment methods are summarized as follows:

Table 3.1: Dongguan City MSW Treatment Methods

Name of WTE Power Plant	2014	Recent Future <sup>1</sup> MSW Treatment Capacity		Remark
		tonnes per day	tonnes per day	
Overall Waste Amount	10,000		10,000	
Kewei WTE Plant	1,800		1,800	Commissioned from mid-2012
China Scivest WTE Plant	1,800		1,800	Commissioned from earlier 2014
Eco-Tech WTE Plant	1,200 <sup>2</sup>		1,800	Will be commissioned in 2015
Houjie WTE Plant	1,500		1,500	Commissioned from 2010
Planned Brand-new WTE Power Plant	—		1,500	In planning
Incineration Portion in Percentage of Total MSW	63%		84%	

Source: Canvest

Note: 1. recent future could be coming 3-5 years. 2. The Plant is under technological upgrade program, and the old facilities (1200 t/d) were stopped from April 2014.

### **3.2.2 Zhanjiang City**

It was noted, indicated by the project feasibility study report, daily total municipal solid waste collection in Zhanjiang City is around 1,000t per day in 2012, and it was thought that the amount would increase to 1,450t per day by 2015, as the rural area solid waste was to be included into municipal solid waste treatment system. Estimated 2020 MSW collection quantity could increase to 2,000t per day.

Currently, Zhanjiang City has 22 existing solid waste transfer stations, and it is planning to build 42 additional county-level solid waste transfer stations. Zhanjiang City plans to equip over 1,130 rural area solid waste collection stations by 2015.

Currently landfill is the only solid waste treatment method in Zhanjiang City. After commissioning the first phase of Zhanjiang WTE Plant, 1,000t/d of solid waste will go to incineration, and 1,500t/d solid waste will go to incineration after Phase II commissioning. Accordingly, the incineration portion would reach about 69% in 2015.

## **3.3 MSW Collection, Transportation, and Classification**

### **3.3.1 Dongguan City**

The MSW collection activities are organized by the Dongguan Municipal Administration. Household MSW is collected at transfer stations in different communities and townships. It was noted that some separation activities are undertaken in the community i.e. collection of plastic bottles by individuals for recycling. There is no MSW separation or classification activity in the WTE Plant sites in Dongguan. MSW lorries/trucks arrive at the plant entrance via local highway network. All trucks pass electric weigh station to record their loading weights. This data is stored in the plant management system as the MSW treatment amount. In addition, this data is real-time transmitted to the government authority (Dongguan Municipal Administration) for their daily management.

The WTE plant management has limited MSW transportation information. The transportation operator is contracted directly by the Dongguan Municipal Administration through a bidding process, and these trucks are equipped with electronic identifications, which is pre-recorded into the plant computer system at the entrance of the plant.

### **3.3.2 Zhanjiang City**

The MSW collection activities are organized by the Zhanjiang Municipal Administration. The households MSW were collected to transfer stations in different communities and townships. It was noted that some of separation activities are undertaken at the household level in the community, i.e. collection of plastic bottles by individuals for recycling. There are no MSW separation or classification activities in the plant site in Zhanjiang City.

## **3.4 Energy Yield**

### **3.4.1 Dongguan City**

According to feasibility study report carried by Chinese Aviation Planning and Construction Design Co. Ltd., the component and heat value of waste in Dongguan are as below:

- Residential waste is comprised mainly of kitchen waste and plastic bags.
- Administrative waste is comprised of mainly paper products and plastic waste.
- Cleaning waste is mainly stems and leaves of plants and soils.
- Industrial zone waste is mainly cloth and plastic.

After test sampling, the components of waste from various areas are shown below:

- Paper: 6.44%
- Rubber and plastic: 19.28%
- Fabric: 16.06%
- Wood: 7.83%
- Kitchen Waste: 31.21%
- Brick and tile: 8.69%
- Glass: 3.37%
- Metal: 6.01%
- Other non-combustible material: 1%

The simulation of the calculation of combustion shows the combustion value in Dongguan area has reached to 5,820kJ/kg, ranging from 5,190kJ/kg to 7,800kJ/kg.

#### **3.4.2 Zhanjiang City**

Base on Zhanjiang WTE Plant Feasibility Study Report, the Testing Centre of Guangzhou Environment and Health Research Institute carried out the sample test of waste from Zhanjiang city. The sampling area includes Xia Shan district, Chikan district, Mazhang district and Economic Development Zone. Waste includes residential waste and cleaning waste. The characteristics of Zhanjiang waste are shown as below:

- MSW are mainly animal and plant putrescible organic waste, average 52.29%, recyclable waste accounts for 30.08%, plastic and rubber accounts for 17.15%.
- The mean water rate of MSW rate is 45.22%.
- The wet net calorific value of MSW is 4,719kJ/kg.

- Perishable organic MSW (animals and plants), the minimum of total nitrogen, total phosphorus, potassium nutrient and organic matter content, all exceed the lowest requirements of national requirements; the content of heavy metals mean exceeded the national standard apart from mercury, the other indicators are below the national control standards.

Through the simulation calculation of combustion, the waste of Zhanjiang area heating value is around 6,000 ~ 7,000kJ/kg (waste into the furnace), and the incinerator will operate at 4,200 ~ 8,500kJ/kg

### **3.5 Conclusion**

Guangdong Dongguan City and Zhanjiang City are highly intensive and highly developed economy, city population density being far higher than the national average level, and especially those areas focusing on Industrial Park Development. Dongguan is famous for electronic products, small industrial products and light industrial products producing, processing and trade area. Therefore waste from Dongguan city has obvious characteristics, such as high volumes of rubber, plastic, and paper products. The combustion heat value is slightly higher than the average level of China.

The highly developed economy and high population density result in daily waste volume being significantly higher than the average level of China. We noted that there is a relatively complete system of policies and regulations in Guangdong Province. From the supply perspective, Canvest has been supplied with enough waste, therefore we have no concerns about waste supply.

Because of Chinese residents living habits, there is no rubbish classification policy, which makes Chinese wastewater content significantly higher than that of western developed countries. Wastewater volume of Dongguan area and Zhanjiang area is slightly lower than the average level of China, but is still at a high level. Waste of high water content will directly lead to increase in the wastewater treatment work and increased investment accordingly, whilst significantly reducing the overall calorific combustion value of waste. We noted, some project units operating hours can match the design working hours, but the estimated electricity generating is slightly lower than the real annual power generation. We believe that the high water content of waste is the main reason.

Dongguan City and Zhanjiang City belong to subtropical climate warm regions. According to the area of waste incineration power plant, the lowest and highest heat value take place in summer and winter respectively, a difference of 500 ~ 1,000kJ/kg. This is the main reason why winter generation is higher than that in summer. We noted that the plant design has considered such factors, increasing the combustion range of furnace. We have no concern about this.

The Consultant believes that with the expansion of the Zhanjiang City in recent years, calorific value of waste is in a stable growth stage. With the wide promotion of the classification of waste collection, the calorific value of waste will have a growth in the future. We are more optimistic on this.

## 4. TECHNICAL ASSESSMENT OF WTE PLANTS

### 4.1 Kewei WTE Plant

#### 4.1.1 Introduction

Kewei WTE Plant Project was approved in 2007 by the Dongguan People’s Government, started construction in 2010, due completed in 2011, and then put into operation. Daily design waste processing is 1,800t, there are 3 sets of 600t/d moving grate furnaces, 3 sets of flue gas treatment systems, 2 sets of 15MW steam turbine generators, and auxiliary, wastewater treatment facilities. According to Dongguan Hengli WTE Plant Phase II Preliminary Design Description, the factory has designed annual processing waste capacity of 547,500t, and the actual annual waste processing is 586,640.7t (year 2013). Annual designed generation capacity is 253,400MWh, the actual generating capacity of around 238,740MWh (year 2013).

Kewei WTE Plant is located at West Ring Road, Hengli Town, Dongguan City, Guangdong Province. The plant enjoys a subtropical monsoon climate, annually average temperature is 23.3 °C. Groundwater recharge is given priority from atmospheric rainfall infiltration; the annual average precipitation is 1,687.9mm. According to China seismic ground motion parameter zonation (GB18306-2001), the seismic fortification intensity is six degrees in Dongguan area.

It was reported there are no schools, hospitals industry and commercial areas close to Kewei WTE Plant. Some industrial factories are within 50 meters of the site. It is reported a residential area is located 350~400 meters away from south west of the site.

For public utilities of water supply, the overall water consumption in 2013 was 840,596t, and all water was supplied by the local waterworks company.

Wastewater: The wastewater after treatment is discharged out of the plant to the municipal system, and the maximum daily wastewater discharge amount is limited to 420t/d.

#### 4.1.2 Overall Design and Main Equipment

The plant was designed by the Chinese Aviation Planning and Construction Design Co. Ltd., the main construction and commissioning was conducted by the Hunan Industrial Equipment Installation Company, the main project engineering supervision was conducted by the Guangdong Security Supervision of Engineering Supervision Co. Ltd.

##### 4.1.2.1 Incinerator & Boiler

The furnace is supplied by Chongqing Sanfeng Covanta Environmental Industry Company Limited, production of the SITY2000 inverse push type moving grate waste incinerator, the combustion furnace technology from Germany Martin waste incineration which is the mainstream technology of waste incineration.

A waste crane transports waste after removing leachate, and then send to the incinerator feeding platform. Through the hopper and the feeding trough, the feeder pushes rubbish onto the inverse moving grate to dry, combust, burnout and cool. Waste stays on the moving grate about 1.5 ~ 2 hours. Finally, after completing combustion, waste slag from the slag sliding pipe into the hydraulic seal type slag remover and is discharged outside of the furnace. Underneath the grate, a primary wind chamber provides required oxygen for combustion and grate cooling, secondary wind through the nozzle and reach into the furnace, strengthening disturbance, prolongs the flue gas flow.

The main feature of moving grate incinerator is to process waste on the moving grate, burning flame will be spread from the burned waste to un-burnt waste, forming a layer combustion process. On the firing grate, along the stacking direction, can be divided into the pre heating & drying, the main combustion and burnout sections ranging from three different temperatures, the generated gas above the grate also create three different temperature chambers inside the furnace.

The main equipment of waste incinerator includes feeder, moving grate, slag removing machine, and hydraulic system.

Table 4.1: Main Technical Specs of Waste Incinerator

<b>Item</b>	<b>Unit</b>	<b>Parameter</b>
Type of incinerator		Moving grate, reverse furnace
Waste treatment capacity	t/d	600
Designed heating value	kJ/kg	7,000
Heating value without oil fuel	kJ/kg	4,500
Clinker ignition loss	%	≤3
Yearly operating hours	h/y	≥8,000
Designed life cycle	Y	≥30
Load range	%	60 ~ 110

Source: Canvest

HRSG body includes: boiler, water wall, super-heater and steam temperature regulation device, economizer, air preheater, and steel structure of steam. The main parameters are below:

Table 4.2: Main Parameters of HRSG

<b>Item</b>	<b>Unit</b>	<b>Parameter</b>
Rated evaporation	t/h	58.39
Main Steam Pressure	MPa	3.82
Flue Gas Temperature	℃	210
Boiler efficiency	%	≥78
Cooling		Spray

Source: Canvest

#### **4.1.2.2 Steam Turbine**

The steam turbine of the plant is N15-3.9/395 type turbine and supplied by SKODA-JINMA Turbine Ltd.

#### **4.1.2.3 Generator**

The generator of the plant is QFW-15-2 type generator and supplied by Nanyang Flame Protection Group Co. Ltd.

### **4.1.3 Environmental Management**

#### **4.1.3.1 Environment Management Organisation**

For effective environmental management and the prevention of pollution accidents, Kewei WTE Plant established a management organisation for the environment management and corresponding environment management staff. These staff members are mainly in charge of the inspection, daily supervision, handling emergency pollution accident during the plant construction and operation periods, and also coordinate and communicate with government environmental authorities and the public.

The environment management of the plant will be reported to Dongguan Municipal Administration and also to be supervised by Dongguan Municipal Environmental Protection Bureau.

#### **4.1.3.2 ISO Certifications**

The Plant achieved three ISO certifications in 2013 as follows:

- ISO 9001 - Quality Management System Certificate (No.2413Q2011904R0M); Issued date 11-02-2013, and valid until: 10-31-2016 (needs monitoring and annual audit).
- ISO 14001 - Environment Management System Certificate (No.02413E2010684R0M); Issued date 11-01-2013, and valid until: 10-31-2016 (needs monitoring and annual audit).
- OHSAS 18001 - Safety Management System Certificate (No.02413S2010465R0M); Issued date 11-01-2013, and valid until: 10-31-2016 (needs monitoring and annual audit)

The Plant has a dedicated staff responsible for the documentation of the system, during the site visit 28th May 2014, the Consultant was shown a list of documents regarding the ISO system. It was reported that the external ISO certificates update checking is conducted annually, the next audit will be the end of 2014.

A list of typical documents produced in 2013 was showed to the Consultant, including as follows:

- QHSE External Audit Record File
- QHSE System Implementation
- QHSE Corrective Actions Record
- QHSE Human Resources
- QHSE Objectives Management
- QHSE Internal Audits
- QHSE Management Evaluations
- QHSE International Standards
- QHSE Document Control
- QHSE MSDS
- QHSE Hazard Resources Identification
- QHSE Environmental Factors
- QHSE Safety Management
- QHSE Customer Services
- QHSE Working Environment
- QHSE Relevant Laws and Regulations

It was noted by the site management staff from Canvest, the external audit for these certificates needs to be organized annually, and the immediate next audit will be 4th Quarter of 2014.

#### **4.1.3.3 EIA and Permit**

The environment protection acceptance document was issued by Guangdong Department Environment Protection in September 2012.

The Guangdong Province Emission Permit for Kewei WTE Plant was issued by Guangdong Department of Environment Protection on 1st February 2013. The emission category includes wastewater and waste gas; and the valid date will be 1st February 2018.



The details of key information for the pollution discharge/emission permit (No: 4419002013000053) are summarized in Appendix A1 of this report.

#### 4.1.3.4 Environment Facilities and Operation

##### Flue Gas Control System

In this power plant, SNCR process is applied for De-NO<sub>x</sub> system. Urea solution is injected into boiler area which temperature is between 850 ~ 1,000 °C. Reduction reaction occurs at this temperature, part of the NO<sub>x</sub> is transformed to N<sub>2</sub> and H<sub>2</sub>O.

By keeping the temperature in the boiler furnace higher than 850 °C, and incineration duration of more than 2 seconds, PCDDs will be reduced efficiently.

In the furnace exhaust gas treatment facilities, using semi dry desulfurization, such as rotary spray, NID, to reduce the exhaust of SO<sub>2</sub> is in compliance with the emissions standard. Flue gas discharged from boiler will go into the desulfurization reaction tower, which is equipped with a rotary atomizer. The prepared liquid of lime slurry is atomized into tiny droplets, which reacts with SO<sub>2</sub>, HCL, HF and other acidic substances to meet the acidic pollutants emission standard. The waste heat of the flue gas evaporates the droplet in high temperature and most of the reaction productions are collected and discharged at the bottom of the tower. Other solid particles will follow flue gas into the bag filter and be filtered on the bag surface. In the entrance of bag filter, granular activated carbon can absorb and remove dioxins and heavy metals to meet emissions standards. At the bottom part of flue gas treatment system, bag filter can filter particles such as desulfurization dust, smog, the unreacted lime and activated carbon and other solid material, ensuring to meet the dust emission standard.

Flue Gas Desulfurization (hereafter FGD) process: semi-dry FGD

Dust removal process: Fabric Filter

Reagent

- Quick Lime - CaO
- $\text{CaO} + \text{H}_2\text{O} = \text{Ca(OH)}_2 + \text{Heat}$

Reactions

- $\text{SO}_2(\text{g}) + \text{Ca(OH)}_2 = \text{CaSO}_3 \bullet \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{H}_2\text{O}(\text{g})$
- $\text{CaSO}_3 \bullet \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{O}_2 + 1.5 \text{H}_2\text{O}(\text{g}) = \text{CaSO}_4 \bullet 2 \text{H}_2\text{O}(\text{s})$
- $\text{SO}_3(\text{g}) + \text{Ca(OH)}_2 + \text{H}_2\text{O} = \text{CaSO}_4 \bullet 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HCl}(\text{g}) + \text{Ca(OH)}_2 = \text{CaCl}_2 \bullet 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HF}(\text{g}) + \text{Ca(OH)}_2 = \text{CaF}_2 + 2 \text{H}_2\text{O}(\text{s})$

### **MSW Transportation Assessment**

There are ID cards for all waste trucks. When a truck enters the plant, information collector reads truck information then the truck moves on to the weighing bridge, if the truck is weighed successfully, then it will move on to the discharge platform. The waste weight and source information is recorded by computer, and the computer can output this information as required. There are several discharge gates above the waste storage pool. The truck should discharge waste at the specified gate. The waste storage pool is divided into 4 areas to manage waste fermentation. The controller opens gates according to waste fermentation time. And the controller operates a grab crane to transfer waste in the pool or boiler feeder hopper. Sufficient waste fermentation time will decrease water content and increase waste heat value.

The MSW is collected from waste transfer stations without classification; the sealed waste truck is responsible for transportation of MSW. Around 200 trucks enter Kewei WTE Plant every day, all the trucks are weighed after entry to the plant, a covered corridor near waste dump station was built to reduce odour diffusion.

### **Leachate Treatment System**

Leachate generated from the dump of municipal solid waste is piped to a leachate treatment station. The major process of this treatment station is summarized in following:

Pre-treatment + UASB (Up-flow Anaerobic Sludge Bed) + MBR (Membrane Bio-Reactor) + NF (nano-filtration)

The effluent after NF treatment will be reused to slag pit first, the rest will be discharged off site via local system and sent to Hengkeng Wastewater Treatment Plant.

### **Waste Gas Emission Control Measures**

Waste gas emission control measures are done by Continuous Emission Monitoring System (hereafter CEMS) on line, the data is shared with the local environmental protection office, and there is unscheduled manual inspection by the environmental protection office, to make sure the data from CEMS is accurate. CEMS room is located in flue gas treatment building and close to the stack.

### **Wastewater Treatment Measures**

Part of the treated wastewater was reused, other was discharged into Hengkeng wastewater treatment plant for further treatment, and treated wastewater was discharged into Hanxi River.

### **Solid Waste Treatment Measures**

For bottom ash, it was noted, a private company have signed a contract to receive and treat as normal industrial solid waste. It was reported the bottom ash is mainly used for making construction materials, such as bricks.

Sludge generated in the wastewater treatment process is dewatered by a sludge dewatering facility. The concentrated wastewater and the sludge cake is incinerated onsite in the main stream of the MSW.

### **Noise Control Measures**

Base on the EIA report, Kewei WTE Plant has a list of ambient noise control measures, including:

- During the overall layout design, the host shall, as far as possible, be away from the office area, to reduce influence of noise on the working environment;
- To install sound absorption devices in the staff centralized control room;
- To install a muffler for boiler exhaust steam and first and secondary air inlet;
- To install low noise equipment; and
- To green the factory area.

#### **4.1.4 Hazardous Waste Treatment**

Around 20t per day of fly ash produced by both furnaces with afterheat and flue gas treatment system is classified as hazardous waste. The fly ash production amount could vary according to the solid waste situations. The plant currently contracts a local certified hazardous waste treatment company to transport and treat the fly ash. The treatment method is strictly managed by the local environment authority. The treatment method is the stabilization/solidification and then disposal in a local hazardous landfill site. The fly ash transport procedure is completely sealed, and together with an EPB required tabulated documentation. The plant pays the cost of fly ash treatment (including all the procedures, registrations, transpiration, treatment and disposal).

4.1.5 Standards and Environmental Monitoring

4.1.5.1 Monitor Data

As per CEMS from the WTE plant, we compared with EIA requirements and latest national standards GB18485-2014 (table 4.4), the flue gas emissions in Kewei WTE Plant of period January 2013 can meet both requirements.

Table 4.3: CEMS Record (Take Unit 1, 2013.1 as example)

Date	SO <sub>2</sub> mg/Nm <sup>3</sup>	NO mg/Nm <sup>3</sup>	HF mg/Nm <sup>3</sup>	CO mg/Nm <sup>3</sup>	HCl mg/Nm <sup>3</sup>	CO <sub>2</sub> %
1	19	74	0	16	9	11
2	13	72	0	13	8	11
3	29	75	0	14	9	11
4	16	82	0	8	9	11
5	26	78	0	22	8	11
6	27	74	0	29	9	11
7	28	73	0	29	8	11
8	27	74	0	47	8	12
9	23	81	0	28	8	11
10	15	93	0	30	6	11
11	39	120	0	28	6	11
12	43	134	0	25	5	11
13	45	138	0	25	2	11
14	44	130	0	29	4	12
15	23	88	0	27	8	11
16	21	57	0	23	17	10
17	13	64	0	17	14	11
18	14	65	0	22	16	11
19	7	71	0	9	14	10
20	18	76	0	7	18	10
21	13	68	0	9	18	10
22	9	73	0	11	15	10
23	10	74	0	5	15	10
24	6	73	0	5	12	10
25	17	69	0	7	15	10
26	8	78	0	8	15	10
27	5	69	0	10	15	10
28	8	71	0	10	15	10
29	6	63	0	6	14	10
30	12	72	0	5	16	10
31	16	75	0	7	17	10
AVG	19	81	0	17	11	11
Max.	45	138	0	47	18	12
Min.	5	57	0	5	2	10

Source: Canvest

Note: 0 means the value is so low that cannot be measured.

Table 4.4: Emission Requirement from EIA and National Standard

No.		Emission Requirements		
		Emission Requirement from EIA	Emission Requirement from Latest National Standard	
1	Particulate (mg/m <sup>3</sup> )	10	20	In 24 hours
2	NO <sub>x</sub> (mg/m <sup>3</sup> )	200	250	In 24 hours
3	SO <sub>2</sub> (mg/m <sup>3</sup> )	100	80	In 24 hours
4	HCl (mg/m <sup>3</sup> )	50	50	AVG
5	Hg (mg/m <sup>3</sup> )	0.1	0.05	AVG
6	Cd +Tl (mg/m <sup>3</sup> )	0.1	0.1	AVG
7	Sb+As+Pb+Cr+Co+Cu+Mn+Ni (mg/m <sup>3</sup> )	1.6	1.0	AVG
8	PCDDs (ng TEQ/m <sup>3</sup> )	0.1	0.1	In 24 hours
9	CO (mg/m <sup>3</sup> )	100	80	In 24 hours

Source: Canvest

Note: Values in upper list, is converted to standard condition, dry and 11% O<sub>2</sub>.

The Consultant has reviewed online wastewater monitoring data, based on the data provided between 31st Dec 2013 and 9th Jan 2014, no monitoring item (COD, ammonia nitrogen and PH) exceeded the limit (COD<=250mg/L, ammonia nitrogen<=25mg/L, PH 6-9).

#### 4.1.5.2 Monitoring Plan

Regarding to the national standard GB18485-2014, WTE plant in operation period shall monitor as below:

##### Atmosphere Environment Monitoring Plan

- Dioxin: once a year
- Hg, Cd, Cr, Pbs, Dust, NH, H<sub>2</sub>S, methyl mercaptan odour: once a month
- Dust, SO<sub>2</sub>, HCL, NO<sub>x</sub>, CO: online monitoring

##### Waste Water Monitoring Plan

- COD, NH<sub>3</sub>-N: online monitoring

##### Noise Monitoring Plan

- Plant boundary noise: once a year

#### **4.1.6 Plant Performance**

The project design scale is 1,800t/d waste incineration, which is categorised as class I waste incineration plant according to MSW treatment project technical specification requirements. The plant is also designed by following the requirements of Guangdong Urban construction department “AAA harmless incineration plant”, “the harmless treatment at the high level in China”, and was named as “AA harmless incineration plant”.

The plant is equipped with 2×15MW steam turbine generator. Its 2012 electricity output was around 239,683MWh. In 2013 its electricity output was around 238,740MWh, which did not exceed the designed annual generating capacity of 253,400MWh. Two years of statistics show that the power generation unit annual utilization hours reached the designed utilization hours; the yearly waste processed was 586,640.7t (year 2013 Statistics), reached the design goal of 547,500t.

According to the plan, the waste incinerator and boiler will be maintained 2 times per year, every time 240 hours for each scheduled maintenance, planned maintenance is total 480h/y, the remaining is unscheduled maintenance. The annual operating hours of 2012 was 8,073 hours, the annual operating hours in 2013 was 8,197 hours. Designed operating time is 8,000h/y, the operation in the past two years met the requirements.

The normal operations of the plant do not require additional fuel. If combustion temperature is below 850°C, additional fuel, diesel will be required. Incinerator ignition uses diesel ignition, ignition fuels need about 3t per time. During normal operation, all the fuel is waste, in 2013 a total of 586,640.7t of waste were incinerated. Because there are no performance test records, each tonne of waste generated 407kWh in 2013 according to the calculation of daily production.

After reviewing the power plant spare parts list, it can be found that spare parts inventory such as electrical, thermal control are sufficient. All three units spare parts procurement lists are declared by the different department on a monthly basis. The purchasing department will purchase against the actual store inventory. Additionally, because of three of the WTE plants (including the transformation plant) incineration furnace and HRSG use the same equipment manufacturers, so that is conducive to the key component interoperability.

#### **4.1.7 Health and Safety Review**

A company-level system for the health and safety has been established, beside the input for the OHSAS 18001 Safety Management System. The site has dedicated staff in charge of staff health and operational safety. The major activities within the OHSAS system included:

- Health and safety planning updating;
- Staff personal protection equipment (hereafter PPEs) allocation;
- Health and Safety sign board in various locations in the workshops;
- Staff safety training activities;
- Special position certifications;
- Regular/annual staff physical examinations; etc.

The relevant documentation in the site included following:

- PPE distribution and use methods;
- Staff welfare and health compensation details;
- Safety management requirement for solid waste inside the plant;
- Certificate holdings of the operators for the stoves as special equipment government-required;
- Rules for the leachate collection and storage;
- Annual plan for staff training activities;
- Notice for the display boards and warning signs, colour lines for the relevant equipment;
- Management requirements for pressure vessels, Management requirements for elevators; etc.

According to the Chinese rules and regulations, the industrial facilities' operational safety is administrated by one of local government authority. In this case, it is the Dongguan Municipal Administration Bureau of Work Safety Supervision. The functions of this government authorization include, as a regulator, supervisions for site situations of safety production, safety accident record, occupational diseases prevention, personal protection equipment, training and education, etc. Besides national regulations, a critical local code is the “Regulation of Guangdong Province on Safety Production”, which was renewed in 2013.

One of key activities of Dongguan Municipal Administration Bureau of Work Safety Supervision is to supervise the new construction projects for their safety equipment function. In this aspect, a locally required procedure included to have an approval for the same time designs, constructions and operations of the safety equipment along with the major production facility.

During the on-site visit in June 2014, it was reported by the site staffs that the procedure of the documentation of safety production acceptance from the Dongguan Municipal Administration Bureau of Work Safety Supervision for the Plant was still under the process, and did not completed. A copy of government document was available on August 2014: A review on “The Assessment Report on Effectiveness of Control for Occupational Diseases” to Kewei WTE Plant issued by Dongguan Municipal Administration Bureau of Work Safety Supervision on 14 August 2014.

As a part of acceptance procedure for the new power plant, the boiler system has successfully completed an external monitoring examination. A 75 pages report, “Report on the Power Station Boiler Installation Monitoring and Test”, giving detailed descriptions, was available to the Consultant. The report was prepared by Guangdong Province Special Equipment Examination Institute, and included the details of the plant boiler installed, and the monitoring data indicated that various examinations, conducted during August 2012 to January 2014, all met the requirements.

Key findings during the site inspection:

- The company management contracted a specialist consultant in 2013 to prepare the application of ISO system certifications;
- With the efforts of application of OHSAS 18001- Safety Management System Certificate in 2013, a reasonable condition and site work procedures have been formulated in the site for the health and safety management;
- Annual surveillance audit of OHSAS 18001 will be expected from 2014;
- Uncertainty on the health and safety risks at the site needs to be reviewed internally (and with possible external professional efforts as well) again — the best time for this update could be ISO and OHSAS annual surveillance audit by the end of 2014 for the Plant. Possible additional efforts could be arranged, particularly in following aspects:
  - Safety risk assessment for the oil tank (fuel, diesel), to review a safety risks of leakage, potential accidental mitigation measures, firefighting equipment effectiveness, operational protocol, etc. It was noted that part of items above mentioned were already in the place, however, it might be important to have a professional review, and to add or modify relevant hardware or measures.
  - Safety risk assessment for the chemical storage room (buckets of lubricant oil, oil paint etc.), to review a safety risks of leakage, potential accidental mitigation



measures, firefighting equipment effectiveness, ventilation for the room, floor anti-leakage, weir-prevention, warning signs on the door, etc. It was noted that part of items above mentioned were already in the place, however, it might be important to have a professional review, in addition to put relevant measures.

- Re-emphasise the full-range and correct uses of PPEs, particularly include the temporal staffs or visitors in the site.
- Double check the safety all the conditions of equipment power and signal cables and their connections.
- Safety risk assessment for waste gas in the solid waste unloading room (for possible in-door gas accumulations on top of unloading room in extreme conditions). The current design looks like there is less opportunity to have an abnormal accumulation of the waste gas (mainly CH<sub>4</sub>, lighter than air and easy to catch fire), generated from the solid waste. However, it might be important to have a professional review additionally, towards some foreseeable extreme situations (i.e. power failure, ultra-high temperature weather, static-electric, etc.) to avoid any possible high concentration of the waste gas which could be explosive.

Canvest confirmed that the management will duly consider and take necessary actions to enhance the operations of the plant as deemed fit and appropriate.

#### **4.1.8 Public Participation and Social Interaction**

The EIA report has been published in Dongguan governmental website (13-23 June 2009), local residents could express their reaction to it through e-mail or letters. In the period of 13 to 23 June 2009 the contractors undertook the public survey, the result was attached in the EIA report. According to the result of public survey, only 1% of interviewees did not support waste incineration.

#### **4.1.9 Conclusion**

Regarding the site visit, we mainly focused on main equipment selection of the power plant, environmental impact assessment, the overall operation of the plant and production management and spare parts reserve. We believe that the moving grate incineration technology used by Kewei WTE Plant is in line with the actual situation of Dongguan MSW, and the main equipment selection meets the power demand of stable output. The actual operation of the plant is slightly better than that in the feasibility study which conducted prior to the construction of Kewei WTE Plant in 2008. Based on the past experiences of its engineers, the Consultant was of the view that the operating parameters covering the waste processing capacity, operation hours, and the level of whole plant management is generally better than the operating parameters of the same type of WTE plants in China.

Flue gas treatment suppliers chosen by the plant owner is well known to the WTE plant flue gas treatment industry and requirements for flue gas treatment systems can meet EIA and the latest national emission standard. We consider that this sub-supplier is capable of delivering high quality systems. As we saw on site, the performance was stable. We therefore considered the flue gas treatment process used as mature and the system as reliable if operated properly and adequately maintained.

Waste incineration impact on the environment is not obvious. According to monitoring data, all indexes meet the national requirements. During the site visit, we found that insufficient cleaning for waste transportation vehicles. Waste and leachate leakage happened during the vehicle transportation. In the vicinity of the road and weighing meter, waste smelled strongly. We have reminded the project management to initiate discussion with the relevant government authorities and group who owned and administrated the waste transportation to treat and strengthen the relevant management gaps urgently.

According to the plant EIA report, the Kewei WTE Plant has a reasonable environment management, health and safety systems. The plant obtained three certifications in 2013: ISO 9001 Quality Management System Certificate, ISO 14001 Environment Management System Certificate, and OHSAS 18001 Safety Management System Certificate. Above mentioned certificates request annual surveillance and audit.

The environment investment was RMB 84,128,300 in the construction time, approximately 17% of the total investment of the plant. The facilities, including waste gas and wastewater facility designed were all put into operation. The environmental monitoring data of waste gas emissions, effluent from leachate treatment system, and noise level shown to the Consultant were all met the designed requirements. The safety and health systems in plant were also in operations are in a continuously improving process.

We are satisfied with the plant management levels, each operation records are completed. The technical specification, regulations and emergency plan are well placed. Personnel management and production management are complied with modern enterprise management system, considered to be satisfactory.

## **4.2 China Scivest WTE Plant**

### **4.2.1 Introduction**

China Scivest WTE Plant is located at Shuilian Town, Nancheng District, Dongguan City, Guangdong Province. The plant enjoys a subtropical monsoon climate, annual average temperature is 23.3 °C. Groundwater recharge is given priority from atmospheric rainfall infiltration; the annual average precipitation is 1,687.9mm. According to China seismic ground motion parameter zonation (GB18306-2001), the seismic fortification intensity is six degree in Dongguan area.

It was reported that there are no particularly environment sensitive points, such as schools, hospitals, and commercial areas, close to the WTE plant. However, it was noted that there were several residential areas located 300 ~ 1,000 meters away from the site.

For water supply, industrial water and domestic water was supplied from water distribution system, its designed maximum daily consumption level was at 4,313m<sup>3</sup>/d.

Solid waste leachate, after treatment, was reused in the site, mainly via a circulating cooling water tank in the plant. Wastewater, the polluted normal industrial wastewater and domestic wastewater, after treatment, was reused for greening, car washing, etc., no wastewater is discharged outside of the plant.

The WTE plant is based on the old factory which was built in 2003. In 2011, plant technical upgrade began, and returned to operation in 2013. Daily designed waste processing capacity is 1,800t, there are 3 sets of 600t/d moving grate furnace, 3 sets of 400t/d flue gas treatment system. Steam turbine and generator unit is 2×15MW+1×12MW. The 12MW generator was purchased as used equipment in 2005, which was manufactured in 1973 by Nanjing Steam Turbine Co., Ltd.

#### **4.2.2 Overall Design and Main Equipment**

Technological upgrade was designed by Chinese Guangzhou Light Industrial Engineering Limited Company. The main construction and commissioning were carried out by the Hunan Industrial Equipment Installation Company. The main project engineering supervision is Shenzhen Hechuang Construction Engineering Consultants Limited.

##### **4.2.2.1 Incinerator & Boiler**

The furnace is supplied by Chongqing Sanfeng Covanta Environmental Industry Company Limited, production of the SITY2000 inverse push type moving grate waste incinerator, the combustion furnace technology from Germany Martin waste incineration which is the mainstream technology of waste incineration.

HRSG is supplied by Nantong Wanda Boiler Co., Ltd.

##### **4.2.2.2 Steam Turbine & Generator**

After the transformation of the Unit1 and Unit2, the steam turbine generator is N15-3.9//395 type turbine supplied by Skoda - Jinma turbo generator. The generator is QFW-15-2 type generator, supplied by the Nanyang Flame Protection Group Co. Ltd.

Steam turbine and generator of Unit3 is supplied by Nanjing steam turbine Co., Ltd, and was manufactured in 1973 and purchased in 2005 as used equipment.

#### **4.2.3 Environmental Management**

##### **4.2.3.1 Environment Management Organisation**

For effective environment management and to prevent any pollution accidents, China Scivest WTE Plant established a management organisation for the environment management and corresponding environment management staff. The staff are mainly in charge of the inspection, daily supervision, handling of emergency pollution accidents during the project construction and operation periods. They also coordinate and communicate with environment government authorities and the public.

The environment management of the plant will be reported to Dongguan Municipal Administration and also to be supervised by Dongguan Municipal Environmental Protection Bureau.

#### 4.2.3.2 EIA and Permits

The EIA report has been approved by Guangdong Province Environment Protection Bureau during April 2012.

The Environmental Protection Acceptance Procedure had been approved by Dongguan Environment Bureau on 6 June 2014.

The Guangdong Province Discharge Permit of for China Scivest WTE Plant was issued by Guangdong Dongguan Environment Protection Bureau on 25th February 2011. The emission category includes waste water and waste gas; and the valid date will be 25th February 2016.

The details of key information for the pollution discharge/emission permit (No. 4419002011000165) are summarized in Appendix A1.

#### 4.2.3.3 Environment Facilities and Operation

##### **Flue Gas Control System**

In this WTE plant, SNCR process is applied for De-NO<sub>x</sub> system. Urea solution is injected into the boiler area of which the temperature is between 850 ~ 1,000 °C. Reduction reaction occurs in this temperature, part of NO<sub>x</sub> is transformed to N<sub>2</sub> and H<sub>2</sub>O.

Keeping the temperature in the boiler furnace higher than 850 °C, and duration more than 2 seconds, PCDDs is reduced efficiently.

In the furnace exhaust gas treatment facilities, using semi dry desulfurization, such as rotary spray, NID, to reduce the exhaust of SO<sub>2</sub> in compliance with the emissions standard. Flue gas discharged from boiler will go into the desulfurization reaction tower, which is equipped with a rotary atomizer. The prepared liquid of lime slurry is atomized into tiny droplets, which reacts with SO<sub>2</sub>, HCL, HF and other acidic substances to meet the acidic pollutants emission standard. The waste heat of the flue gas evaporates the droplet in high temperature and most of the reaction productions are collected and discharged at the bottom of the tower. Other solid particles will follow flue gas into the bag filter and be filtered on the bag surface. In the entrance of bag filter, granular activated carbon can absorb and remove dioxins and heavy metals to meet emissions standards. At the bottom part of flue gas treatment system, bag filter can filter par particles such as desulfurization dust, smog, the unreacted lime and activated carbon and other solid material, ensuring to meet the dust emission standard.

FGD process: semi-dry FGD

Dust removal process: Fabric Filter

Reagent

- Quick Lime - CaO

- $\text{CaO} + \text{H}_2\text{O} = \text{Ca(OH)}_2 + \text{Heat}$

#### Reactions

- $\text{SO}_2(\text{g}) + \text{Ca(OH)}_2 = \text{CaSO}_3 \cdot \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{H}_2\text{O}(\text{g})$
- $\text{CaSO}_3 \cdot \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{O}_2 + 1.5 \text{H}_2\text{O}(\text{g}) = \text{CaSO}_4 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $\text{SO}_3(\text{g}) + \text{Ca(OH)}_2 + \text{H}_2\text{O} = \text{CaSO}_4 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HCl}(\text{g}) + \text{Ca(OH)}_2 = \text{CaCl}_2 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HF}(\text{g}) + \text{Ca(OH)}_2 = \text{CaF}_2 + 2 \text{H}_2\text{O}(\text{s})$

### MSW Transportation Assessment

There are ID cards for all waste trucks. When a truck enters the plant, information collector reads truck information, then the truck move on to the weighing bridge, if the truck is weighed successfully, then it will move on to the discharge platform. The waste weight and source information is recorded by computer, and computer can output this information as required. There are several discharge gates upper the waste storage pool. The truck should discharge waste at the specified gate. The waste storage pool is divided to 4 areas to manage waste fermentation. The controller opens gates according to the waste fermentation time. The controller operates a grab crane to transfer waste in the pool or boiler feeder hopper. Sufficient waste fermentation time will decrease water content and increase waste heat value.

The MSW is collected from the waste transfer station without classification; sealed waste truck is responsible for transportation of municipal solid waste. Around 200 trucks enter the WTE Plant every day, all the trucks are weighed after entry into the plant, chemical spray along the waste transfer road from the plant entrance to the waste dump station was built to reduce odour diffusion.

### Leachate Treatment System

Leachate generated from the dump of MSW is going to be collected together with polluted washing water from the municipal solid waste discharging platform, then piped to a leachate treatment station. The major process of this proposed treatment station is summarized as follows:

Pre-treatment + UASB (Up-flow Anaerobic Sludge Bed) + MBR (Membrane Bio-Reactor) + NF (nano-filtration) + RO (Reverse Osmosis)

The effluent will meet the water quality standard of open circulating cooling water system of water supplement, which is indicated as the category of “The reuse of urban recycling water”- in “Water Quality Standard for Industrial Uses (GBT19923-2005)” — to circulating cooling water reuse in the Plant.

### **Waste Gas Emission Control Measures**

Waste gas emission control measures are done by CEMS on line, and the data is shared with the local environmental protection office, and there is unscheduled manual inspection by environmental protection office, to make sure the data from CEMS is accurate. CEMS room is located in flue gas treatment building and close to the stack.

### **Wastewater Treatment Measures**

According to the Completion Acceptance Monitoring Report of China Scivest WTE Plant, the treated wastewater and industrial wastewater shall reach the standard of ‘The reuse of urban recycling water — water quality standard for industrial uses’(GB/T19923-2005), reused as cooling tower water, and without outside discharge. During the Consultant site visit, the plant staff states that there is no wastewater discharge outside the Plant.

### **Solid Waste Treatment Measures**

For bottom ash, it was noted, a private company have signed a contract to receive and treat as normal industrial solid waste. It was reported the bottom ash is mainly used for making construction materials such as bricks or heat insulator.

Sludge generated in the wastewater treatment process is dewatered by a sludge dewatering facility. The concentrated wastewater and the sludge cake is incinerated onsite in the incinerator.

The scrap metal collected from bottom ash was temporarily put in the site and to be transported out for a recycling purpose by an outsourcing team.

### **Noise Control Measures**

Based on the EIA report, the plant has a list of ambient noise control measures, including:

- During the overall layout design, the host shall, as far as possible, site away from the office area, to reduce influence of noise on the working environment;
- To install sound absorption device in the staff centralized control room;
- To install a muffler for boiler exhaust steam and first and secondary air inlet;
- To install low noise equipment; and
- To greening the factory area.

#### **4.2.4 Hazardous Waste Treatment**

Around 20t per day fly ash produced by both furnace with afterheat and flue gas treatment system is classified as hazardous waste. The fly ash production amount could vary according to the solid waste situations. The plant contracts a local certified hazardous waste treatment company to transport out and treatment of the fly ash. The treatment method is strictly managed by the local environment authority. The treatment is stabilization/solidification and then disposed in a local hazardous landfill site. The fly ash transport procedure is completely sealed, and together with an EPB required tabulated documentation. The plant pays the cost of fly ash treatment (including all the procedures, registrations, transpiration, treatment, and disposal).

#### **4.2.5 Standards and Environmental Monitoring**

##### **4.2.5.1 Monitoring Plan**

The environment monitoring items during the construction period includes: dust, noise, soil erosion, wastewater and waste oil. Given the periodic feature of the construction, environment monitoring could be conducted only during the construction period. The monitoring was undertaken semi-annually, same as indicted by the EIA.

The environment monitoring items during work acceptance included: flue gas emission monitoring, effluent wastewater quality monitoring, plant boundary and in-plant noise monitoring, acceptance of sewage outfall standardization construction and acceptance of other environment protection facilities.

Regarding to the national standard GB18485-2014, WTE plant in operation period shall monitor as below:

##### **Atmosphere Environment Monitoring Plan**

- Dioxin: once a year
- Hg, Cd, Cr, Pbs, Dust, NH, H<sub>2</sub>S, methyl mercaptan, odour: once a month
- Dust, SO<sub>2</sub>, HCL, NO<sub>x</sub>, CO: online monitoring

##### **Waste Water Monitoring Plan**

- COD, NH<sub>3</sub>-N: online monitoring

##### **Noise Monitoring Plan**

- Plant boundary noise: once a year

4.2.5.2 Monitoring Data

A dataset approved in the Environmental Acceptance Monitoring Report was available. The report did have monitoring results for all monitoring data for three incinerators lines, during 25 Feb 2014 to 27 Feb 2014. Following table 4.5 summarized the major results:

Table 4.5: Incinerator Waste Gas Monitoring Result, average, 25 Feb 2014 to 27 Feb 2014

Parameters	Unit	No.1 average	No.2 average	No.3 average
Dust	mg/m <sup>3</sup>	6.4	6.7	7
Hg	mg/m <sup>3</sup>	0.018	0.015	0.019
Pb	mg/m <sup>3</sup>	0.013L	0.013L	0.013L
Cd	mg/m <sup>3</sup>	0.001L	0.001L	0.001L
Dioxin	ng TEQ/m <sup>3</sup>	0.033	0.047	0.011
SO <sub>2</sub>	mg/m <sup>3</sup>	15L	15L	15L
NO <sub>x</sub>	mg/m <sup>3</sup>	48	49	53
CO	mg/m <sup>3</sup>	2	3.9	6.4
HCl	mg/m <sup>3</sup>	8.7	6.81	8.61

Source: Canvest

Note L: lower than the Limit of Detection, reported as detection limit

To compare the actual emission monitoring result from 25 Feb 2014 to 27 Feb 2014 with the emission requirement from EIA and national standard, it can be found that the plant emission factor satisfied both requirements.

Table 4.6: Emission Requirement from EIA and National Standard

No.		Emission requirement from EIA	Emission requirement from latest national standard	
1	Particulate (mg/m <sup>3</sup> )	10	20	In 24 hours
2	NOx (mg/m <sup>3</sup> )	150	250	In 24 hours
3	SO <sub>2</sub> (mg/m <sup>3</sup> )	60	80	In 24 hours
4	HCl (mg/m <sup>3</sup> )	50	50	AVG
5	Hg (mg/m <sup>3</sup> )	0.05	0.05	AVG
6	Cd +Tl (mg/m <sup>3</sup> )	0.05	0.1	AVG
7	Sb+As+Pb+Cr+Co+Cu+Mn+Ni (mg/m <sup>3</sup> )	0.5	1.0	AVG
8	PCDDs (ng TEQ/m <sup>3</sup> )	0.1	0.1	In 24 hours
9	CO (mg/m <sup>3</sup> )	50	80	In 24 hours

Source: Canvest

Note: Values in upper list, is converted to standard condition, dry and 11% O<sub>2</sub>.



**4.2.6 Plant Performance**

After technical transformation, there are 3 sets of 600t/d moving grate furnaces, 3 sets of flue gas treatment systems, 3 sets of turbine generator units, the 300t/d of leachate treatment systems.

The plant is rated class I waste incineration plant according to MSW treatment project technical specification requirements, the plant is also designed by following the requirements of Guangdong Urban construction department “AAA harmless incineration plant”.

According to the reply of Guangdong DRC on approving Dongguan MSW Treatment Plant Technological Upgrade project, the plant’s annual designed waste treatment capacity is 584,000t, the actual waste treatment capacity is 330,817.1t (1H 2014). Annual designed electricity generation is 230,000MWh, the actual electricity generation is around 142,433MWh (1H 2014).

According to the plan, the waste incinerator and boiler will be maintained 2 times/year, every time 240 hours for each scheduled maintenance, planned maintenance is total 480 hours/year. From January to April of 2014, planned maintenance outage time is 241 hours per furnace, which is in line with the maintenance plan, non-scheduled maintenance outage time is 142 hours.

The plant before technological upgrade required additional fuel, coal. The mixture rate between coal and waste is 20% to 80%. After the technological upgrade of 2013, the normal combustion no longer required additional fuel. Incineration furnace ignition and spare additional fuel is No. 0 diesel. During operation, all the fuel is waste, from January 2014 to June 2014, it burned 330,817.1t of MSW, reaching the design requirements. It can be found that part of the daily actual waste processing amounts are higher than designed waste processing capacity during commissioning stage, which result from the actual waste heat value is lower than the design waste heat value. Therefore the lower actual heat value allows the incinerators to process a volume of waste which is greater than the designed waste processing capacity. Because the project has no performance test, each tonne of waste generated 431kWh in 2014 according to the calculation of daily production.

According to Canvest’s staff, the technical upgrade could be concluded as below table:

Table 4.7 Key Factors of Technical Upgrading

<b>Index</b>	<b>Unit</b>	<b>Before Technological Upgrade</b>	<b>After Technological Upgrade</b>
Waste processing scale	t/Year	380,000	650,000
Electrical generator	MW	42	42
Incineration method		CFB	MGI
Yearly generation	kWh	200m	260m (estimated)
Staff	Person	166	115
Yearly operating hours	Hours	6,900	8,000 (estimated)

*Source: Canvest*

After reviewing the power plant spare parts list, it can be found that spare parts inventory such as electrical, thermal control are sufficient. Unit1, Unit2, and Unit3 spare parts procurement lists are declared by the different department on a monthly basis. The purchasing department will purchase against the actual store inventory. Additionally, because of three of the WTE plants (including the transformation plant) incineration furnace and HRSG use the same equipment manufacturers, so that the key components are interoperability.

#### **4.2.7 Health and Safety Review**

A company-level system for the health and safety has been established and the site has dedicated staff in charge of staff health and operational safety. The major activities in the system included: health and safety planning updating; PPE allocation; health and safety sign board placed in various locations in the workshops; staff safety training activities; special position certifications; regular/annual staff physical examinations; etc.

During the Consultant site visit in June 2014, It was reported that the approval for the safety production documentations were still in process. And relevant documentation of safety production acceptance was going to be submitted to relevant government authority. A copy of document from Dongguan Municipal Administration Bureau of Work Safety Supervision was available on August 2014: A review on “The Assessment Report on Effectiveness of Control for Occupational Diseases” to China Scivest WTE Plant for Proposed Technical Upgrading Project issued by Dongguan Municipal Administration Bureau of Work Safety Supervision on 25 July 2014. With this document, the assessment on effectiveness for control for occupational diseases has been approved by the local authority, as required to a newly invested project.

Key findings during the site inspection:

- Site management expressed that this plant will also complete applications for ISO and OHSAS certifications. When that has happened, the health and safety review will be more systematic
- Health and safety risks at the site need to be reviewed, to validate on-going programs during the Consultant site visit in June 2014 and information collection/clarification afterwards, the Consultant did remind the management on certain areas for improvement through communications and draft report. During the period of June to August, the site staff made relevant efforts of improvement, including the following:
  - Safety risk assessment for the oil tank (fuel, diesel) was reviewed — to identify any safety risks of leakage, potential accidental mitigation measures, firefighting equipment effectiveness, and operational protocols. Part of items above mentioned was already in the place in June 2014. And some of new arrangement was made in July and August, such as additional new structures of floor anti-leakage lining, protect-berm, safety warning signs, and operation protocol display.

- Safety risk assessment for the chemical storage room (buckets of lubricant oil, oil paint etc.) was reviewed again - risks of leakage, potential accidental mitigation measures, firefighting equipment effectiveness, ventilation for the room, floor anti-leakage lining, protect-berm, warning signs on the door, etc. Part of items above mentioned was already in the place in June 2014. And some of new arrangement was made in July and August, including additional new structures of floor anti-leakage, protect-berm, warning signs, and fire-mitigation facility checking, clear warning lines on the ground.
  - Re-emphasise the full-range and correct uses of PPE, particularly include the temporary staff or visitors to the site.
  - As suggested, a safety review for the condition of equipment of power and signal cables and their connections both indoor and outdoor was organized. It followed a list of corrective or improvement actions, including engaging Dongguan Electric Power Company to have safety supervision for all 100kv cable lines and power supply units.
- The Consultant recommend that a safety risk assessment for waste gas in the solid waste unloading room (for possible in-door gas accumulation on top of unloading room in extreme conditions) could be organized - The current design looks there is less opportunity to have an abnormal accumulation of the waste gas (mainly CH<sub>4</sub>, lighter than air and easy to fire), generated from the solid waste, However, it might be important to have a professional review additionally, towards some foreseeable extreme situations (i.e. power failure, ultra-high temperature weather, static-electric, etc.) to avoid any possible high concentration of the waste gas which could be explosive.

Canvest confirmed that the management will duly consider and take necessary actions to enhance the operations of the plant as deemed fit and appropriate.

#### **4.2.8 Public Participation and Social Interaction**

The technical reform EIA information has been published in Dongguan governmental website (15 July 2011 - 2 August 2011) and Dongguan daily newspaper at 25 July 2011, local residents could express their views via e-mail or letters. It was noted, the plant had organized the first public day at 5 June 2014, and the information has been published at a local website: <http://www.sun0769.com/>. Actual air pollutants emissions data can be found from local website: <http://www.epinfo.org> and <http://dgsz.dg.gov.cn/>.

#### **4.2.9 Conclusion**

The project owner has an investment plan for the technological upgrade as a new construction project. Base on the Completion Acceptance Monitoring Report of China Scivest WTE Plant, the environment investment within this overall investment plan was RMB 120,560,000, which accounts to approximately 20.35% of the total technological upgrade investment. The environmental protection acceptance procedure with the local environment authority has been completed on 6 June 2014. The following summary was obtained after the site visit by the Consultant:

- The Plant has a reasonable environment management, health and safety systems. It was reported that the company is planning to complete applications for the ISO and OHSAS certificates.

- The waste gas and wastewater facility designed were all put into operation. The environmental monitoring data including waste gas emission, and noise level showed to the Consultant all met the designed requirements. Leachate and wastewater is reused on site after treatment; no wastewater is discharged outside the plant.
- The operator of the plant had organized a public day on 5th June 2014, the information has been published on a local website: <http://www.sun0769.com>

Regarding the site visit, we mainly focused on main equipment selection of the power plant, environmental impact assessment, the overall operation of the plant and production management and spare parts reserve. We believe that the moving grate furnace technology used by China Scivest WTE Plant is in line with the actual situation of Dongguan MSW, main equipment selection meets the power demand for stable output.

The design of China Scivest WTE Plant is same as Kewei WTE Plant. Although there is no complete yearly operation report of China Scivest WTE Plant, The Consultant believes that China Scivest WTE Plant performance will be close to the designed forecast data, considering Kewei WTE Plant operation results. Based on the past experiences of its engineers, the Consultant was of the view that the operating parameters covering the waste processing capacity, operation hours, and the level of whole plant management would be better than the same type of WTE Plant in China.

Flue gas treatment suppliers chosen by the plant owner is well known to the WTE plant flue gas treatment industry and requirement for flue gas treatment systems can meet the EIA and latest national emission standards. The Consultant considers that this supplier is capable of delivering a high quality system. As we saw on site, the performance was stable. The Consultant therefore considered the flue gas treatment process used as mature and the system as reliable if operated properly and adequately maintained.

Waste incineration impact on the environment is not obvious. According to monitoring data, all indexes meet the national requirements. During the site visit, we found that insufficient cleaning for waste transportation vehicles. Waste and leachate leakage happened during the vehicle transportation. In the vicinity of the road and weighing meter, waste smells strongly. We have reminded the project management to initiate discussion with the relevant government authorities and group who owned and administrated the waste transportation to treat and strengthen the relevant management practices urgently.

We are satisfied with the plant management levels, each operation records are complete. The technical specification, regulations and emergency plans are well placed. Personnel management and production management complied with modern enterprise management systems and are considered to be satisfactory.

### **4.3 Eco-Tech WTE Plant**

#### **4.3.1 Introduction**

The Eco-Tech WTE Plant is located at West Ring Road, Hengli Town, Dongguan City, Guangdong Province. The plant enjoys a subtropical monsoon climate, annually average temperature

is 23.3 °C. Groundwater recharge is given priority from atmospheric rainfall infiltration; the annual average precipitation is 1,688mm. According to China seismic ground motion parameter zonation (GB18306-2001), the seismic fortification intensity is six degree in Dongguan area.

It was reported that there are no schools, hospitals or commercial areas close to site. However a number of industrial factories were found immediately close to the site, all within 50 meters distance. In addition, a residential area was found in 350 ~ 400m away from south west of the site.

For public utilities of water supply, the water consumption in 2013 was 1,120,000t in total, and it was all supplied by a local waterworks company. For leachate, before the end of 2011, all the leachate was sprayed into the incinerator; and between 2011 and April 2014, After Kewei WTE Plant was commissioned, leachate generated from Eco-Tech WTE Plant was sent to Kewei WTE Plant’s facility to be treated together. After the treatment, the effluent was reused partly and discharged out of plant partly. It was expected that when the technological upgrade is done the Eco-Tech WTE Plant will have its own leachate treatment system.

Eco-Tech WTE Plant was approved by local government in 2003, the start of construction in 2004, and commenced operation in 2005. A total of 4 sets of 400t/d circulating fluidized bed boiler, with 3 operations and 1 standby. There are 3 sets of 12MW steam turbine generators. According to Dongguan Hengli WTE Plant Phase I Technological Upgrade Preliminary Design Description, the factory has designed annual waste processing capacity of 400,000t, and the actual annual waste processing volume was 394,480.4t (year 2013). The designed annual power generation capacity is 307,000MWh, the actual generating capacity is around 239,204MWh (year 2013).

In April 2014, Eco-Tech WTE Plant stopped operation and carried out a technological upgrade. The transformation is the removal of 4 circulating fluidized bed boilers and auxiliary systems, upgrading to designed daily waste treatment capacity of 1,800t, annual processing of 600,000t. The upgraded plant will equip 3 × 600t/d moving grate incinerator and use “rotary spray type semi dry reaction tower + activated carbon adsorption + bag dust collector” method to purify flue gas. Now plant is at the demolition stage, the main equipment tendering process has been completed; plant is planned to return to trial operation in 2015.

#### **4.3.2 The Main Technical Upgrade**

Demolition of existing 4 × 400t/d circulating fluidized bed incinerator, and installation of new built 3 × 600t/d moving grate waste incinerator.

Demolition of existing flue gas purification system, build new flue gas purification system. Change the old system “fluidized bed semi dry reaction + activated carbon adsorption + bag filter” to “SNCR denitration + rotary spray semi dry reaction tower + activated carbon adsorption + bag filter”.

Demolition of existing main plant and coal storage, rebuild main building, re-arrange the boiler and flue gas treatment system in the internal plant layout.

Construct and expand the wastewater treatment system, fly ash solidification and stabilization system and other auxiliary systems and facilities.

Retain existing 3 × 12MW steam turbine generator sets and grid connection system; make some modification in the turbine auxiliary equipment room; make major modification in the high and low voltage power distribution rooms, electronic equipment room, control room, DC system, excitation system, and synchronous system.

Retain existing cooling tower and landscaping.

Re-plan general layout of project, improve landscaping, and enhance the overall image of the plant.

#### 4.3.3 Target for Technological Upgrade

Demolition of existing circulating fluidized bed incinerator, construct moving grate incinerator.

Increase waste treatment capacity from 1,200t/d to 1,800t/d.

Increase the flue gas discharge standards; reduce emissions of air pollutants, so that production can be increased without increasing pollution.

After the technological upgrade, an improved technological level of the plant through scientific management operations, and the Plant will reach “factory evaluation standard of MSW incineration” (CJJ/T137-2010) AAA standard.

Key index after technological upgrade as below:

Table 4.8: Key Factors after Upgrading

<b>Index</b>	<b>Unit</b>	<b>Before Technological Upgrade</b>	<b>After Technological Upgrade</b>
Waste processing scale	t/d	1,200	1,800
Electrical generator	MW	3 × 12	3 × 12
Incineration method		CFB	MGI
Yearly generation	kWh	119m	212m
Staff	person	180	120
Yearly designed operating hours	hours	7,992	7,992

Source: Canvest

4.3.4 Main Equipment

After Technological Upgrade, the plant has the same waste incinerator and HRSG with China Scivest WTE Plant. Steam turbine is N12-3.43 type, supplied by Qingdao Jieneng generator Co., Ltd. Generator is QFW-15-2 type, supplied by Sichuan Dongfeng Steam Turbine Generator Co., Ltd.

Table 4.9: Steam Turbine Generator Parameter

Item	Unit	Result
Unit		3
Type		N12-3.43/435
Rate Power	MW	12
Rate Speed	r/min	3,000
Inlet Pressure	MPa	3.43
Inlet Temperature	℃	435
Rated Inlet Flow	t/h	55
Outlet Pressure	MPa(a)	0.0074
Rated Voltage	kV	10.5
Power Factor		0.8
Cooling Method		Air Cooling

Source: Canvest

Table 4.10: Other Equipment Parameter

Item	Name	Type	Key Factors	Number
1	Condensing water pump	4N6	Volume: 75 m <sup>3</sup> /h 70mH <sub>2</sub> O	6
	Frequency conversion Motor		380V 2,950r/min	6
2	Surge tank		φ273×1,550	3
3	Hydrophobic expansion tank		φ377×1,050	3
4	Gland steam condenser	JQ20-1	20 m <sup>2</sup> 50m <sup>3</sup> /h	3
5	Low-pressure heater	JD-40	40m <sup>2</sup>	3
6	High pressure heater	JG-65	65m <sup>2</sup>	3
7	Oil tank		6m <sup>3</sup>	3
8	Water ring vacuum pump	2BW5203-OEK4	25kg/h	6
9	Boiler water supply pump	D85-67X9	Volume:85m <sup>3</sup> /h 645mH <sub>2</sub> O	4
			Supply water temperature:104℃	
	Electrical Motor		Voltage:380V Speed: 2,950r/min	4

Source: Canvest

#### 4.3.5 Environmental Management

##### 4.3.5.1 Environment Management Organisation

For effective environment management and prevent the pollution accident, Eco-Tech WTE Plant established a management organisation for the environment management and corresponding environment management staff. These staff members are mainly in charge of the inspection, daily supervision, handling emergency pollution accident during the project construction and operation periods and also coordinate communication with environment government authorities and the public.

The environment management of the plant will be reported to Dongguan Municipal Administration and also to be supervised by Dongguan Municipal Environmental Protection Bureau.

##### 4.3.5.2 EIA and Permits

It was reported that the EIA report for the proposed technological upgrade had been approved by Dongguan Environmental Protection Bureau in April 2014. The Guangdong Province Discharge Permit (no. 4419002011000332) for Eco-Tech WTE Plant was issued by Guangdong Dongguan Environment Protection Bureau on 1st April 2013. The emission category includes waste water and waste gas; and the valid date will be 1st April 2016. According to the regulation, when the project construction is completed and obtain approval of the environment authority, the project owner needs to renew the application for the discharge/emission permit(s). It is expected these activities will be required in coming years.

##### 4.3.5.3 Environment Facilities and Operation

###### Flue Gas Control System

In this power plant, SNCR process is applied for De-NO<sub>x</sub> system. Urea solution is injected into boiler area which temperature is between 850 ~ 1,000 °C. Reduction reaction occurs at this temperature, part of the NO<sub>x</sub> is transformed to N<sub>2</sub> and H<sub>2</sub>O.

By keeping the temperature in the boiler furnace higher than 850 °C, and incineration duration of more than 2 seconds, PCDDs will be reduced efficiently.

In the furnace exhaust gas treatment facilities, using semi dry desulfurization, such as rotary spray, NID, to reduce the exhaust of SO<sub>2</sub> in compliance with the emissions standard. Flue gas discharged from boiler will go into the desulfurization reaction tower, which is equipped with a rotary atomizer. The prepared liquid of lime slurry is atomized into tiny droplets, which reacts with SO<sub>2</sub>, HCL, HF and other acidic substances to meet the acidic pollutants emission standard. The waste heat of the flue gas evaporates the droplet in high temperature and most of the reaction productions are collected and discharged at the bottom of the tower. Other solid particles will follow flue gas into the bag filter and be filtered on the bag surface. In the entrance of bag filter, granular activated carbon can absorb and remove dioxins and heavy metals to meet emissions standards. At the bottom part of flue gas treatment system, bag filter can filter par particles such as desulfurization dust, smog, the unreacted lime and activated carbon and other solid material, ensuring to meet the dust emission standard.



FGD process: semi-dry FGD

Dust removal process: Fabric Filter

Reagent

- Quick Lime - CaO
- $\text{CaO} + \text{H}_2\text{O} = \text{Ca(OH)}_2 + \text{Heat}$

Reactions

- $\text{SO}_2(\text{g}) + \text{Ca(OH)}_2 = \text{CaSO}_3 \cdot \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{H}_2\text{O}(\text{g})$
- $\text{CaSO}_3 \cdot \frac{1}{2} \text{H}_2\text{O}(\text{s}) + \frac{1}{2} \text{O}_2 + 1.5 \text{H}_2\text{O}(\text{g}) = \text{CaSO}_4 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $\text{SO}_3(\text{g}) + \text{Ca(OH)}_2 + \text{H}_2\text{O} = \text{CaSO}_4 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HCl}(\text{g}) + \text{Ca(OH)}_2 = \text{CaCl}_2 \cdot 2 \text{H}_2\text{O}(\text{s})$
- $2 \text{HF}(\text{g}) + \text{Ca(OH)}_2 = \text{CaF}_2 + 2 \text{H}_2\text{O}(\text{s})$

### MSW Transportation Assessment

The MSW is collected from waste transfer station without classification; sealed waste truck is responsible for transportation of MSW. The weighing bridges of Kewei WTE Plant would be shared with Eco-Tech WTE Plant.

### Leachate Treatment Process

The proposed process of leachate after technical reformation is summarized in following:

*Pre-treatment + UASB (Up-flow Anaerobic Sludge Bed) + MBR (Membrane Bio-Reactor) + NF (nano-filtration)*

The effluent after NF treatment will be reused to bottom ash pit first, and the rest will be discharged out of the plant and piped to Hengkeng Wastewater Treatment Plant.

### Waste Gas Emission Control Measures

Waste gas emission control measures are done by CEMS on line, and the data is shared with the local environmental protection office, and there is manual random inspection by environmental protection office, to make sure the data from CEMS is accurate. CEMS room is located near the stack.

### **Wastewater Treatment System**

Eco-Tech WTE Plant will install a wastewater treatment system after technological upgrade to treat normal domestic wastewater (in the office and staff living area) and some of normal industrial production wastewater.

### **Solid Waste Treatment Measures**

It was noted that the bottom ash production will be increased from 10.5% to 20.2% of feed material after technological upgrade. A private company will sign a contract with Eco-Tech WTE Plant to receive and treat the bottom ash as normal industrial solid waste. Usually the bottom ash is mainly used for making construction materials. Sludge generated in the normal wastewater treatment process will be dewatered by a dewatering facility. The concentrated wastewater will be piped backflow to the reactor. The sludge cake will be incinerated onsite.

### **Noise Control Measures**

Base on the technological upgrade EIA Report (submission version 2014), the plant intends to have a list of ambient noise control measures, including:

- To select relevant low noise equipment;
- To undertake other necessary measures to reduce noise.

#### **4.3.6 Hazardous Waste Treatment**

It was noted, the fly ash production will be decreased from 9.5% to 1.4% of feed material after technological upgrade. After technological upgrade, a specified company with hazardous waste treatment qualification will continually undertake fly ash transportation and disposal.

#### **4.3.7 Standards and Environmental Monitoring**

##### **4.3.7.1 Monitoring Plan**

The environment monitoring items during the construction period includes: ambient dust, noise, soil erosion, wastewater and waste oil. Given the periodic feature of the construction, environment monitoring can be conducted only during the construction period. Once per half of a year is advised by the EIA.

The environment monitoring items during commissioning acceptance will include: flue gas emission monitoring, effluent and wastewater quality monitoring, plant boundary and in-plant noise monitoring, acceptance of sewage outfall standardization construction and acceptance of other environment protection facilities.

Waste gas emission control measures is done by CEMS on line, and the data is shared with local environmental protection office, and there is manual inspection by environmental protection office unscheduled, to make sure the data from CEMS is accurate. CEMS room is located close to the stack.

**4.3.7.2 Proposed Emission Data**

From comparison as below, it can be found that the emission factor from flue gas system supplier of heavy metal (Sb+As+Pb+Cr+Co+Cu+Mn+Ni) is 1.6 mg/m<sup>3</sup>, which is not in compliance with the requirements from EIA and latest national standards. The flue gas treatment system supplier Wuxi Xuelang guaranteed that the actual heavy metal emission factor will meet the design requirement of EIA in August 2014. It is considered the flue gas system in this WTE plant after technological upgrade will meet the government requirement if operated properly and adequately maintained.

Table 4.11: Emission requirement for sub-supplier V.S. EIA requirement V.S. National standard

No.		Emission factor from Flue Gas System Sub-Supplier	Emission Requirement from EIA	Emission Requirement from Latest National Standard	
1	Particulate (mg/m <sup>3</sup> )	10	10	20	In 24 hours
2	NO <sub>x</sub> (mg/m <sup>3</sup> )	150	150	250	In 24 hours
3	SO <sub>2</sub> (mg/m <sup>3</sup> )	50	60	80	In 24 hours
4	HCl (mg/m <sup>3</sup> )	10	50	50	AVG
5	Hg (mg/m <sup>3</sup> )	0.05	0.05	0.05	AVG
6	Cd +Tl (mg/m <sup>3</sup> )	0.05	0.05	0.1	AVG
7	Sb+As+Pb+Cr+Co+Cu+Mn+Ni (mg/m <sup>3</sup> )	1.6	0.5	1.0	AVG
8	PCDDs (ng TEQ/m <sup>3</sup> )	0.1	0.1	0.1	In 24 hours
9	CO (mg/m <sup>3</sup> )	50	50	80	In 24 hours

Source: Canvest

Note: Values in upper list, is converted to standard condition, dry and 11% O<sub>2</sub>.

**4.3.8 Public Participation and Social Interaction**

It is reported, in project EIA (submission version), the developer and the EIA team have interviewed residents near by the site and transportation lines. Based on the survey result, 90% of interviewees support the technological upgrade (total 298 interviewees who lives close to the site); 89% of interviewees support the technological upgrade (total 61 interviewees who lives close to the transportation lines).

#### **4.3.9 Conclusion**

Eco-Tech WTE Plant has stopped operation in April 2014. And the plant is undertaking a technological upgrade, according to the EIA of this proposed project (submission version), the new plant will install a list of pollution control facilities, including a leachate treatment system, boiler wastewater treatment system which will be the same as currently used by Kewei WTE Plant. Relevant domestic and normal industrial wastewater will be piped to Kewei WTE Plant’s wastewater treatment system and to be treated over there. The effluent wastewater will discharged into local system and piped to a municipal wastewater treatment plant.

For the technological upgrade, it was expected the gas emission standard will meet new Chinese National Standard (GB 18485-2014 - Standard for pollution control on the municipal solid waste incineration). The new standard will have stricter gas emission standard, which is close to the EU Directive (2000/76/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the incineration of waste). For the details, please refer to the Appendix A2 of this report.

It was expected in technological upgrade, the fly ash production will be decreased from 9.5% to 1.4%. This will greatly relieve the pressure of the Dongguan Municipal Government who lacks of hazardous waste treatment and disposal facility.

According to the environment sector of preliminary design document for Eco-Tech technological upgrade, the environment investment for the technological upgrade (2014) will be at the level of 13.8% of the total investment, approximately RMB 106,280,800.

The Consultant conducted site visits and a technical report review of technological upgrade of Eco-Tech WTE Plant. The technological upgrade will use mature technology and operation management mode which is already operated in Kewei WTE Plant and China Scivest WTE Plant. We have no concerns about Eco-Tech WTE Plant based on the running Kewei WTE Plant and China Scivest WTE Plant.

Our technical documents review and management assessment are based on communications between Canvest. The Consultant has no concerns of project design, bidding and construction management.

Flue gas treatment suppliers are Wuxi Xuelang Environmental Science and Technology Limited Company. The designed requirement for flue gas treatment system can most meet EIA and latest national emission standard. However the heavy metal emission factor from system supplier cannot satisfy the EIA and national standard, the flue gas treatment system supplier had guaranteed that the actual heavy metal emission factor will meet the design requirement of EIA in August 2014.

According to the environmental design, most of emissions levels will comply with the national standard. Due to the good performance of Kewei WTE Plant and China Scivest WTE Plant, we have no concerns regarding the technological upgrade of Eco-Tech WTE Plant. Considering the Kewei WTE Plant and Eco-Tech WTE Plant are only separated by a single wall, there will be 3,600t waste processed every day after 2015. Large quantities of waste transportation vehicles will cause a certain impact on the surrounding environment. Individual vehicles may cause disposal and leakage, resulting in dissatisfaction from the surrounding residents. The Consultant suggests Canvest to take the potential impact of the plant’s normal operation on the neighbourhood into consideration.

#### **4.4 Zhanjiang WTE Plant**

##### **4.4.1 Introduction**

The planned Zhanjiang WTE Plant is located in Yingling Fengcun, Mazhang District, Zhanjiang City, Guangdong Province. The site is about 20km distance away from Zhanjiang town centre. The plant enjoys a subtropical monsoon climate, annually average temperature is 23.1 °C. The groundwater recharge is given priority from atmospheric rainfall infiltration and underground runoff recharge, the annual average precipitation is 1,417 ~ 1,802mm. According to China seismic ground motion parameter zonation (GB18306-2001), the seismic fortification intensity is seven degree in Zhanjiang area.

The Zhanjiang WTE Plant site is inside of an existing municipal domestic waste landfill site. It was reported that there are no environment sensitive points nearby, such as residential areas, schools, hospitals industrial and commercial areas close to site. This existing municipal domestic waste landfill site has a two-lanes road connected to the city highway system.

For public utilities of electricity, the proposed site (a place in the middle of existing Zhanjiang Municipal Waste Landfill Site) will have a temporary power supply with 800kVA transformer from 110kV Zhangma Substation. The plant’s grid connection system, invested by Zhanjiang WTE Plant, will access 110kV Huagang Substation. For water supply, Zhanjiang Water Management Investment Group Co., Ltd will construct the water supply facilities to Zhanjiang WTE Plant site. The water supply capacities will be no less than 3,500m<sup>3</sup>/d for plant operation as regulated in Water Supply Agreement of Zhanjiang WTE Plant BOT Franchise Project. For leachate, after treatment, the effluent will be reused for circulating cooling water pool in the plant. For wastewater, the polluted industrial wastewater and domestic wastewater, after treatment, will be reused for greening, car washing, etc.

The Plant is still in the early stages of preparation, it is going to adopt the BOT mode, with 28 years of government operational permits (including Phase I construction period of 30 months). The plant is located in Mazhang District, Zhanjiang City, Guangdong Province, a district on the north side of waste landfill area, occupies an area of about 52,990m<sup>2</sup>. According to the feasibility study, a total capital investment is RMB600.6 million, with an estimated investment of RMB470.2 million for phase I, and the investment RMB130.4 million for phase II, respectively.

After the completion of construction, the plant daily waste processing capacity is 1,500t of waste, with 3 sets of moving grate incinerator and 2 sets of steam turbine generator units. The project construction consists of two phases. Phase I is a scale for disposal of municipal solid waste of 1,000t/d, with 2 units of 500t/d moving grate incinerator and 2 × 15MW steam turbine generator units. Phase II is the expansion of living waste of 500t/d, adding one 500 t/d moving grate incinerator.

After project operation, Canvest will benefit from an income from waste treatment and waste to energy.

#### 4.4.2 Overall Design

The project is still in the design, construction and bidding stage. A EPC contractor consortium named China GDE Engineering Co., Ltd. and Hunan Xingda Construction Group Co., Ltd. had signed the EPC agreement with Zhanjiang Yuefeng Environmental Power Company Limited on 18 July 2014. A number of main equipment had completed the tender process. The Consultant reviewed part of the project development preparatory documents. It was noted that the project has obtained the approval documents from Zhanjiang Municipal Development and Reform Commission, on 24 January 2013. In December 2013, the project obtained the approval from Guangdong Province Development and Reform Commission.

##### 4.4.2.1 Main Technical Figures

Table below shows the key design figures for Zhanjiang WTE Plant.

Table 4.12: Key Figures of Zhanjiang WTE Plant

No.	Name	Unit	Item	
			2 × 500t/d(Phase I)	3 × 500t/d(Phase I&II)
1	Daily waste treatment capacity	t/d	1,000	1,500
2	Yearly waste treatment capacity	t/a	≥365,000	≥547,500
3	Yearly operating hours	h	≥8,000	≥8,000
4	Annual electricity generation	10 <sup>4</sup> kWh	12,344.54	18,516.81
5	Annual on-grid electricity	10 <sup>4</sup> kWh	10,122.52	15,183.78
6	Electricity plant usage	%	18	18
7	Electricity sale to grid per tonne waste	kWh/t	277.33	277.33
8	Area	m <sup>2</sup>	52,990	52,990
9	Total built area	m <sup>2</sup>	26,890.8	26,890.8
10	Landscaping	%	30	30
11	Total capital investment	million RMB	470.2	600.6
12	Total operating people	Person	80	100

Source: Canvest

#### **4.4.2.2 Main Technology**

The construction of 2 sets of processing ability for moving grate incinerator with waste processing capacity 500t/d, 2 sets of 15MW steam turbine generator units for phase I of the plant. Set aside one 500t/d incinerator for phase II of the plant.

According to the plant feasibility study and technical proposal, its flue gas purification system adopts “SNCR furnace denitration + semi dry deacidification + dry lime injection + activated carbon adsorption + bag dust” process, all emission indexes will comply with national standard.

All wastewater will be reused after treatment, and there is no external discharge.

HRSG will use medium temperature and medium pressure boiler (400°C, 4.0MPa), increased the energy utilization rate, the thermal efficiency is up to 21.74%.

#### **Flue Gas Treatment System**

Flue gas treatment suppliers are under the engagement process. According to the technical proposal of Zhanjiang WTE Plant provided by Canvest, the guaranteed emission factor by Canvest is reasonable and better than the requirements of last national standard. The Consultant advises Canvest to select a well-known supplier to the WTE plant flue gas treatment industry and operated properly and adequately maintained.

#### **Leachate Treatment System**

Leachate generated from the dump of municipal solid waste is going to be collected together with polluted washing water from municipal solid waste discharging platform, then piped to a leachate treatment station. The major process of this proposed treatment station is summarized in following:

*Pre-treatment + UASB (Up-flow Anaerobic Sludge Bed) + MBR (Membrane Bio-Reactor) + NF (Nano-filtration) + RO (Reverse Osmosis)*

The effluent will meet the water quality standard of open circulating cooling water system of water supplement, which is indicated as the category of “The reuse of urban recycling water”- in “Water Quality Standard for Industrial Uses (GBT19923-2005)” - All of the effluent is going to be reused for plant circulating cooling water.

Sludge generated in the wastewater treatment process will be dewatered by sludge dewatering kit. The concentrated wastewater will be piped to backflow to the reactor; the sludge cake is going to be incinerated in the incinerator.

## Wastewater Treatment System

The site is going to be equipped a wastewater treatment system to treat domestic wastewater (in the office and staff living area) and industrial production wastewater. The proposed process is summarized in following:

*Hydrolytic acidification + secondary contact oxidation biochemical treatment + reclaimed water tertiary treatment*

This separated system will receive polluted industrial wastewater and domestic wastewater, and the effluent will be reach the standard of “The Reuse of Urban Recycling Water — Water Quality Standard for Industrial Uses”(GBT19923-2005), the effluent will be fully reused within the site, i.e. plant area watering green, car washing, etc.

### 4.4.3 Environmental Management

#### 4.4.3.1 Environment Management Organisation

Base on the technical proposal of Zhanjiang WTE Plant, an environmental management organisation will be established in order to effectively protect environment and prevent pollution accidents.

#### 4.4.3.2 EIA and Permits

The Environment Impact Assessment (EIA) report was available to the Consultant in August 2014. Zhanjiang WTE Plant EIA Approval had been issued by Zhanjiang Environmental Protection Bureau on 5 November 2013. According to the regulation, when the project construction completed and obtained the environment authority approval, the project owner needs to complete the application for the discharge/emission permit. It is expected these activities will be required in coming years.

#### 4.4.3.3 Solid Waste Treatment

The incineration bottom ash: Base on the Technical Proposal of Zhanjiang WTE Plant, the project will adopt a method to have a comprehensive utilization of bottom ash, including making bricks or productions of building materials. It is expected that the operator will have a treatment contract with a selected downstream firm for incineration bottom ash collection, treatment, and disposal.

Sludge generated in the wastewater treatment process will be dewatered by a sludge dewatering kit. The concentrated wastewater will be piped backflow to the reactor. The sludge cake will be incinerated onsite.



#### **4.4.3.4 Noise Control**

Based on the technical proposal, the plant intends to have a list of ambient noise control measures, including:

- Reasonable overall layout design - to separate the host workshop away from the office area, to minimize the noise impact towards the working environment;
- To install sound absorption devices in the staff centralized control room;
- To use muffler for boiler steam exhaust outlets and air inlets;
- To select relevant low noise equipment; and
- To use green plantation in the site.

#### **4.4.3.5 Hazardous Waste Treatment**

As described in the EIA, the fly ash generated in Zhanjiang WTE Plant will be solidified, stabilized and tested for leaching toxicity to meet the requirements of MSW Landfill Pollution Control Standard GB16889-2008, and bury into exclusive landfill zone. The target landfill would be Zhanjiang MSW Landfill Phase III. If the test does not satisfy the national standard GB16889-2008, the fly ash treatment work shall be assigned to specified company with hazardous waste treatment qualification.

#### **4.4.3.6 Proposed Emission**

From comparison as below, The Consultant considers the flue gas system in Zhanjiang WTE Plant will meet the government requirement if adopt appropriate system supplier who follow the regulated emission factor in the Approval of Zhanjiang WTE Plant Project EIA from Zhanjiang Environmental Protection Bureau in 2013, Zhanjiang WTE Plant BOT Franchise Agreement, and operated properly and adequately maintained.

**Table 4.13 Regulated emission factors from EIA Approval V.S. National standard**

No.		Regulated Emission Factor from EIA Approval	Emission Requirement from Last National Standard	
1	Particulate (mg/m <sup>3</sup> )	10	20	In 24 hours
2	NO <sub>x</sub> (mg/m <sup>3</sup> )	200*	250	In 24 hours
3	SO <sub>2</sub> (mg/m <sup>3</sup> )	100*	80	In 24 hours
4	HCl (mg/m <sup>3</sup> )	60*	50	AVG
5	Hg (mg/m <sup>3</sup> )	0.05	0.05	AVG
6	Cd + Tl (mg/m <sup>3</sup> )	0.05	0.1	AVG
7	Sb+As+Pb+Cr+Co+Cu+Mn+Ni (mg/m <sup>3</sup> )	0.5	1.0	AVG
8	PCDDs (ng TEQ/m <sup>3</sup> )	0.1	0.1	In 24 hours
9	CO (mg/m <sup>3</sup> )	100*	80	In 24 hours

Source: Canvest

Note: Value in upper list, is converted to standard condition, dry and 11% O<sub>2</sub>

\*: The regulated emission factors of NO<sub>x</sub>, SO<sub>2</sub>, HCl, and CO from EIA Approval are hourly value which met the requirements of the national standard at the date of 2013. In Zhanjiang WTE Plant BOT Franchise Agreement, Canvest ensured that if there are any newest promulgated national standards or Guangdong Provincial standards before Zhanjiang WTE Plant commercial operation, the flue gas system emission factor would follow the newest national standards.

#### 4.4.4 Public Participation and Social Interaction

The Zhanjiang WTE Plant will be located inside the Zhanjiang Municipal Solid Waste Landfill Site. Some households are located near the proposed site. A project environment impact assessment (EIA) report, prepared by South-China Institute of Environment Sciences MEP became available in August 2014. This report outlined a series of public engagement activities, including:

- Stage-1 Publication of information relating to the proposed facility occurred in May 2013. This involved publication in three local websites, two local newspapers, notices displayed throughout the community.
- Stage-1 Public surveys, questionnaires.
- Stage-2 Release of more detailed information regarding the proposed facility - August 2013. Included EIA Report summary;
- Stage-2 Public surveys and questionnaires conducted during August to September 2013 targeted towards specific groups and individuals.
- Stage-3 Revisit and review information relating to key public participants, September 2014.

The EIA Report also summarized the above public survey activities, which involved a) 19 groups, b) 225 individuals and households near the proposed plant site, and c) 50 individuals and households along the proposed road of transportation. The EIA Report included the results analysis, site photos, the details of the questionnaire, and disclosure of samples.

The EIA Report indicated the results of the public questionnaire in detail. It indicated that 21% of groups showed “conditional support” for the project construction generally, and no group for “do not support” the project, and 48% of individuals showed “conditional support” and 1% “do not support.”

#### **4.4.5 Conclusion**

According to Zhanjiang WTE Plant EIA, the environment investment will be at the level of 15% of the total investment, approximately RMB94,369,100.

The Zhanjiang WTE Plant will complete its construction and commissioning, the application of approval from Local Environmental Protection Bureau for the new plant acceptance will be required. After that, the pollution discharge/emission permit will be required. The Consultant recommends that the project owner may need to pay attention to the implementation of the project environment management plan, including points indicated in EIA Report, particularly social and public consultations in operational stage.

The Consultant conducted a review of the project documents and interviews with project management. The project examination and approval procedures are completed. Economic calculation conforms to the current Zhanjiang area standard. The Consultant has no objection.

With the reference of other WTE plants from Canvest, The Consultant is satisfied with the company’s investment, management and operation of following ‘AAA’ standard of waste power generation project.

According to the feasibility study and the bidding document, The Consultant noted that the plant’s main equipment and auxiliary equipment parameters requirements are high. The preliminary design scheme can meet the economic estimation, flue gas treatment scheme is reasonable, can limit the environmental impact within the national standard.

The Consultant noted that the similar size project of Canvest in Dongguan, the incoming and outgoing waste transportation traffic are frequently, have some impact on the surrounding residents and road traffic. The Consultant recommends further evaluation in environmental and social impact assessment.

APPENDIX

A.1. Summary of Discharge Permit for Kewei WTE Plant

Following is the key information in English for the pollution discharge/emission permit

**Guangdong Province Emission Permit**

Issued by: Department of Environmental Protection of Guangdong Province

Unit Name: Dongguan Kewei Environmental Power Company

Permit No: 4419002013000053

Industry Categories: Power Generation

Emission Type: Wastewater, waste gas

Valid until: 1 February. 2018

**Plant Basic Information for the pollutant treatment**

Capacity of Solid Water Treatment (t/d): 420

Capacity of Waste Gas Treatment (Norm<sup>3</sup>/h): 127,436

**Water Pollutants**

Main pollutants: COD, Ammonia nitrogen, Suspended solids

Concentration limitations

COD: 500 mg/l

Suspended Solid: 400 mg/l

**Gas Pollutants**

Main pollutants: Sulphur dioxide, Nitrogen Oxide, Particulate matters, Fume and dust

**Concentration limitations**

SO<sub>2</sub>: 100 mg/m<sup>3</sup>

NO<sub>x</sub>: 200 mg/m<sup>3</sup>

Dust: 10 mg/m<sup>3</sup>

CO: 100 mg/m<sup>3</sup>

HCl: 50 mg/m<sup>3</sup>

**Total load limitations**

For the total loading limitations, for 2013 (and same for 2014):

SO<sub>2</sub>: 288 t/Year

NO<sub>x</sub>: 630.72 t/Year

Dust: 31.54 t/Year<sup>3</sup>

**Guangdong Province Discharge Permit**

Issued by: Department of Environmental Protection of Guangdong Province

Unit Name: Dongguan China Scivest Environmental Power Company

Permit No: 44190020110000165

Industry Categories: Power Generation

Emission Type: Waste Gas

Valid until: 25th February 2016

**Plant Basic Information for the pollutant treatment**

Capacity of Solid Water Treatment (t/d): 300

Capacity of Waste Gas Treatment (Norm<sup>3</sup>/h): 416,670

**Gas Pollutants**

Main pollutants: Sulphur dioxide, Nitrogen Oxide, Particulate matters, Fume and dust, Dixon

**Concentration limitations**

SO<sub>2</sub>: 260 mg/m<sup>3</sup>

NO<sub>x</sub>: 400 mg/m<sup>3</sup>

Dust: 80 mg/m<sup>3</sup>

Dixon: 0.1 mg/m<sup>3</sup>

**Total load limitations**

For the total loading limitations, for 2014:

SO<sub>2</sub>: 170.35 t/Year

NO<sub>x</sub>: 252.08 t/Year

Dust: 131 t/Year

Dixon: 0.087 t/Year

A.2. Summary of Incineration Exhaust Pollutants Emission Limit Values in Standards of EU, China National, Beijing and Shanghai

Table A.1: Incineration Exhaust Pollutants Emission Limit Values in Standards

No.	Pollutant	EU Maximum Daily Avg.	EU Half Hourly Avg. 100%	EU Half Hourly Avg. 97%	Proposed	Beijing Standard (DB11602)	Shanghai Standard (tentative)
					China National Standard (GB18485- 2014)		
1	Total dust (mg/m <sup>3</sup> )	10	30	10	30 <sup>c</sup> /20 <sup>d</sup>	30 <sup>e</sup>	
2	Particulate matter (mg/m <sup>3</sup> )						20
3	Gaseous and vaporous organic substances, expressed as total organic carbon (mg/m <sup>3</sup> )	10	20	10			
4	Oxides of nitrogen (NO <sub>x</sub> ) (mg/m <sup>3</sup> )	200 <sup>a</sup> /400 <sup>b</sup>	400	200	300 <sup>c</sup> /250 <sup>d</sup>	250 <sup>e</sup>	400
5	Sulfur dioxide (SO <sub>2</sub> ) (mg/m <sup>3</sup> )	50	200	50	100 <sup>c</sup> /80 <sup>d</sup>	200 <sup>e</sup>	100
6	Hydrogen chloride (HCl) (mg/m <sup>3</sup> )	10	60	10	60 <sup>c</sup> /50 <sup>d</sup>	60 <sup>e</sup>	30
7	Hydrogen fluoride (HF) (mg/m <sup>3</sup> )	1	4	2			4
8	Mercury (Hg) (mg/m <sup>3</sup> )			0.1	0.1	0.2	0.05
9	Pb+Sb+As+Cr+Co+Cu+Mn+Ni+V (mg/m <sup>3</sup> )			1	1	1.6 (Lead only)	0.5 (Lead only) 0.5 (Arsenic only) 1.0 (besides Pb, As)
10	Cadmium(Cd)+Thallium(Tl) (mg/m <sup>3</sup> )			0.1	0.1	0.1 (Cadmium only)	0.05
11	Carbon monoxide (CO) (mg/m <sup>3</sup> )	50	100			55 <sup>e</sup>	50
12	Dioxins (ng TEQ/m <sup>3</sup> )			0.1 (6 ~ 8 hours sample values)	0.1	0.1	0.1
13	Blackness of fume (Ringelman black, degree)					1	
14	Smoke opacity (%)					10 <sup>e</sup>	

Source: The Consultant

Note: <sup>a</sup> expressed as nitrogen dioxide for existing incineration plants with a nominal capacity exceeding 6 tonnes per hour or new incineration plants

<sup>b</sup> expressed as nitrogen dioxide for existing incineration plants with a nominal capacity of 6 tonnes per hour or less

<sup>c</sup> One hour Avg.

<sup>d</sup> 24 hour Avg.

<sup>e</sup> Hourly Avg.

GLOSSARY

ASME	American Society of Mechanical Engineers
BOT	Building, Operation, Transfer
CaF <sub>2</sub>	Calcium fluoride
CaCl <sub>2</sub>	Calcium chloride
CaO	Calcium oxide
Ca(OH) <sub>2</sub>	Calcium hydroxide
CaSO <sub>4</sub>	Calcium sulphate
CCGT	Combined Cycle Gas Turbine
Cd	Cadmium
CEMS	Continuous Emission Monitoring System
CO	Carbon monoxide
COD	Chemical oxygen demand
Cr	Chromium
CW	Cooling water
CSG	China Southern Power Grid Company Limited
EIA	Environmental Impact Assessment
FBC	Fluidized bed combustion
FGD	Flue gas desulfurization
GB	GuoBiao, Chinese National Standard
GPG	Guangdong Power Grid Corporation
H <sub>2</sub> O	Water
H <sub>2</sub> S	Hydrogen sulfide
HCL	Hydrogen chloride
HF	Hydrogen fluoride
Hg	Mercury
HRSG	Heat Recovery Steam Generator
IPO	Initial Public Offering
ISO	International Organization for Standards
MGI	Moving grate incinerator
MBR	Membrane Bio-Reactor
MBT	Mechanical biological treatment
Mott MacDonald	Mott MacDonald Limited

**APPENDIX IV**

**TECHNICAL REPORT**

MSW	Municipal Solid Waste
N <sub>2</sub>	Nitrogen
NO <sub>x</sub>	Nitrogen Oxides
NF	Nano-filtration
OHSAS	Occupational Health and Safety Assessment Series
O&M	Operation and Maintenance
PCDDs	Polychlorinated dibenzo-p-dioxins
PCDFs	Polychlorinated dibenzofurans
PGP	Plasma (arc) gasification process
PPE	Personal protection equipment
PVC	Polyvinyl chloride
QHSE	Quality, Health, Safety, Environmental
Rated Power	Maximum power that a generator can produce at design status
RDF	Refuse-derived fuel
RO	Reverse Osmosis
SO <sub>2</sub>	Sulfur Dioxide
SRF	Solid/specified recovered fuel
ST	Steam Turbine
UK	United Kingdom
UASB	Up-flow Anaerobic Sludge Bed
USA	United States of America
WTE	Waste to energy
°C	Centigrade
bar	Bar (a unit of pressure equal to 100 kPa)
h	Hours
h/y	Hours per year
g/m <sup>3</sup>	gram per cubic meter
kJ/kg	Kilojoules per kilogram
km	kilometre (length)
kPa	kilopascal
kV	kilo voltage (electric)
kW	kilo Watt (electric)
kWh	kilo Watt hour (electric generation))



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APPENDIX IV

TECHNICAL REPORT

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kVA	kilo Voltage Ampere
m	metre (length)
mm	millimetre (length)
m <sup>2</sup>	square metre (area)
m <sup>3</sup>	cubic metre (volume)
m <sup>3</sup> /d	cubic metre per day
mg/m <sup>3</sup>	milligram per cubic meters
m/s	metre per second (velocity)
MPa	Mega Pascal
MW	Mega Watt (electric)
MWh	Mega Watt hour (electric generation)
MVA	Mega Volt Ampere (apparent power)
r/min	Revolution per min
RMB/t	RMB per tonne
t	tonnes
t/d	tonnes per day
t/h	tonnes per hour
V	Voltage
Y	Calendar year

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**APPENDIX V      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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**SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS  
COMPANY LAW**

**1      Memorandum of Association**

The Memorandum of Association was conditionally adopted on [●] and effective on the [Redacted] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix VII to this [Redacted].

**2      Articles of Association**

The Articles of Association were conditionally adopted on [●] and effective on the [Redacted] and include provisions to the following effect:

**2.1    *Classes of Shares***

The share capital of the Company consists of ordinary shares. The authorised share capital of the Company at the date of adoption of the Articles of Association is HK\$50,000,000 divided into 5,000,000,000 shares of HK\$0.01 each.

**2.2    *Directors***

*(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum of Association and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof is, liable to be redeemed.

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*(b) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the articles of association of the Company expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the articles of association of the Company or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the articles of association of the Company and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the articles of association of the Company, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided

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that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning [Redacted] shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the [Redacted];
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees’ share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

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*(g) Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by

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ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed

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for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(i) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

*(j) Proceedings of the Board*

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**2.3 Alteration to constitutional documents**

No alteration or amendment to the Memorandum of Association or Articles of Association may be made except by special resolution.

**2.4 Variation of rights of existing shares or classes of shares**

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**2.5 Alteration of capital**

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

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The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company’s benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

**2.6 *Special resolution — majority required***

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.



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In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

**2.7 *Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the [Redacted], required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the [Redacted] to be voted on by a show of hands.

If a recognised [Redacted] (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares

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in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised [Redacted] (or its nominee(s)) which he represents as that recognised [Redacted] (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

**2.8 *Annual general meetings***

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the [Redacted] may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

**2.9 *Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company’s affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director’s report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company’s affairs as at the end of such period, an auditor’s report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

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*2.10 Notice of meetings and business to be conducted thereat*

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days’ notice in writing and any other extraordinary general meeting shall be called by not less than 14 days’ notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the [Redacted]) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

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- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

**2.11 *Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the [Redacted].

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the [Redacted] may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days’ notice being given by advertisement published on the [Redacted] website, or, subject to the [Redacted], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of

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members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

***2.12 Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the [Redacted] and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

***2.13 Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

***2.14 Dividends and other methods of distribution***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

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No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or

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provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

**2.15 Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

**2.16 Calls on shares and forfeiture of shares**

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14

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days’ notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.



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***2.17 Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days’ notice being given by advertisement published on the [Redacted] website, or, subject to the [Redacted], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the [Redacted]) as the Directors may determine for each inspection.

***2.18 Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

***2.19 Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

***2.20 Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall

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be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

**2.21 *Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the [Redacted], by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the [Redacted] has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

**1      Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act

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of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**2      Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 January 2014 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

**3      Share Capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**4      Dividends and Distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

**5      Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra*

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*vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

**6      Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7      Disposal of Assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**8      Accounting and Auditing Requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

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**9      Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10     Inspection of Books and Records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company’s articles of association.

**11     Special Resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**12     Subsidiary Owning Shares in Parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13     Mergers and Consolidations**

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as

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to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

**14    Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

**15    Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**16    Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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**17    Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company’s liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**18    Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**19    Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from 11 February 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.



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**20   Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**21   General**

Maples and Calder, the Company’s legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed “Documents available for inspection” in Appendix VII to this [Redacted]. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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**A. FURTHER INFORMATION ABOUT OUR COMPANY**

**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 January 2014. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 13 March 2014 and our principal place of business in Hong Kong is at Unit 1701B, 17/F., International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. Ms. Loretta Lee and Mr. KM Lai have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix V to this [Redacted].

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation of our Company, our authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. One fully paid Share was issued and allotted to Mapcal Limited on 28 January 2014 and was transferred to Best Approach on the same day.
- (b) On [●] 2014, our sole Shareholder resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$50,000,000 by the creation of an additional of 4,962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.
- (c) Immediately following completion of the [Redacted] and the [Redacted], and assuming that the [Redacted] is not exercised, and before taking into account any Share which may be issued pursuant to the exercise of the option granted under the Share Option Scheme, [Redacted] Shares will be issued fully paid or credited as fully paid, and [Redacted] Shares will remain unissued.
- (d) Other than the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our sole Shareholder passed on [●] 2014” in this Appendix and pursuant to the Share Option Scheme, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our sole Shareholder in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.
- (e) Save as disclosed in this [Redacted], there has been no alteration in our Company’s share capital since its incorporation.

3. **Written resolutions of our sole Shareholder passed on [●] 2014**

By written resolutions of our sole Shareholder passed on [●] 2014:

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$5,000,000,000 by the creation of an additional of 4,962,000,000 Shares of HK\$0.01 each, each ranking pari passu with our Shares then in issue in all respects;
- (c) conditional on the [Redacted] granting [Redacted] of and [Redacted] as mentioned in this [Redacted] including any Shares which [Redacted], and on the obligations of the [Redacted] under the [Redacted] becoming unconditional and not being terminated in accordance with the terms of the [Redacted] or otherwise, in each case on or before the date falling 30 days after the date of this [Redacted]:
  - (i) the [Redacted] was approved and our Directors [Redacted] to rank pari passu with the then [Redacted] in all respects;
  - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to [Redacted] pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
  - (iii) the [Redacted] was approved and our Directors were authorised to allot and issue our Shares as may be required to be allotted and issued upon the exercise of the [Redacted] to rank pari passu with the then existing Shares in all respects; and
  - (iv) the [Redacted] was approved and conditional further on the share premium account of our Company being credited as a result of the [Redacted], our Directors were [Redacted] standing to the credit of the share premium account of our Company and to appropriate such amount [Redacted] to the persons whose names appear on the register of members of our Company at the close of business on [●] 2014 in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking pari passu in all respects with [Redacted];

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- (d) a general unconditional mandate was given to our Directors to [Redacted] otherwise than by [Redacted] pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share scheme of our Company or any Share allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Memorandum of Association and the Articles of Association or pursuant to a specific authority granted by our Shareholders or pursuant to [Redacted], Shares with [Redacted] of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [Redacted] and the [Redacted] but excluding any Shares which may be issued under the [Redacted] or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:
- (i) the conclusion of the next annual general meeting of our Company; or
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles of Association or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company [Redacted] pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company; or
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles of Association or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and

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- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by [Redacted] pursuant to the exercise of the options which may be granted under the Share Option Scheme.

**4. Corporate Reorganisation**

Please refer to “History and development” in this [Redacted].

**5. Changes in share capital of subsidiaries**

The subsidiaries of our Company are listed in the Accountant’s Report, the text of which is set out in Appendix I to this [Redacted]. Save as described above and in “History and Reorganisation” in this [Redacted], there has been no other alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this [Redacted].

**6. Repurchase of our Shares by our Company**

This section includes information required by the [Redacted] to be included in the [Redacted] concerning the repurchase of our Shares by our Company.

**(a) Provisions of the [Redacted]**

The [Redacted] permit companies with a [Redacted] to purchase their shares on the [Redacted] subject to certain restrictions.

*(i) Shareholders’ approval*

The [Redacted] provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a [Redacted] must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

*Note:* Pursuant to the written resolutions of our sole Shareholder passed on [●] 2014, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorising our Directors to exercise all powers of our Company [Redacted] the exercise of the options which may be granted under the Share Option Scheme, and the

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Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by law or the Articles of Association to be held, or when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. [Redacted]

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company’s share premium account before or at the time our Shares are repurchased or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

*(iii) Connected parties*

The [Redacted] prohibit our Company from knowingly [Redacted] from a “connected person”, which includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

**(b) Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company [Redacted]. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

**(c) Exercise of the Repurchase Mandate**

Exercise in full of the Repurchase Mandate, on the basis of [Redacted] in issue after completion of the [Redacted] and the [Redacted], could accordingly result in up to [Redacted] being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

**(d) Funding of repurchase**

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the [Redacted] and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

**(e) General**

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the [Redacted]), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the [Redacted] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [Redacted] and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as [Redacted]. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to [Redacted].

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the [Redacted].

No connected person (as defined in the [Redacted]) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS**

**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this [Redacted] and are or may be material:

- (a) a sale and purchase agreement dated 30 December 2013 between Yi Feng and Mr. KL Lee with respect to the sale and purchase of the entire issued share capital of Swift Ample at a consideration of RMB100,000,000;
- (b) a share subscription agreement dated in respect of the [Redacted] 10 April 2014 among our Company, Best Approach, Yi Feng Development, Mr. KM Lai, Ms. Loretta Lee, Century Rise, AEP Green Power Limited, Chatsworth Asset Holding Ltd and Wise Power Investment Limited;
- (c) an amendment to the share subscription agreement in respect of the [Redacted] dated 22 May 2014 among our Company, Best Approach, Yi Feng Development, Mr. KM Lai, Ms. Loretta Lee, Century Rise, AEP Green Power Limited, Chatsworth Asset Holding Ltd and Wise Power Investment Limited;
- (d) a shareholders agreement dated 22 May 2014 among our Company, Best Approach, Yi Feng Development, Mr. KM Lai, Ms. Loretta Lee, Century Rise, AEP Green Power Limited, Chatsworth Asset Holding Ltd and Wise Power Investment Limited;
- (e) a trademark assignment dated [●] entered into between Yi Feng Development and Oceanic Ease Limited;
- (f) a trademark license agreement dated [●] entered into among Oceanic Ease Limited and our Company;
- (g) a trademark license agreement dated [●] entered into among Canvest Investment, Canvest Environmental Investments and our Company;
- (h) a deed of non-competition undertaking dated [●] executed by Mr. KM Lai, Ms. Loretta Lee, VISTA Co, Century Rise and Best Approach in favour of our Company, details of which are set out in the paragraph headed “Deed of non-competition” under the section headed “Relationship with Controlling Shareholders” in this [Redacted];
- (i) a deed of indemnity dated [●] executed by Mr. KM Lai, Ms. Loretta Lee, VISTA Co, Century Rise and Best Approach in favour of our Group containing the indemnities referred to in the paragraph headed “E. Other information — 1. Tax and other indemnities” in this Appendix; and
- (j) the [Redacted].



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2. Intellectual Property Rights

As at the Latest Practicable Date, our Group is the owner of the following domain name which is or may be material to the business of our Group:

Registered owner	Domain name	Expiry date
The Company	<a href="http://www.canvestenvironment.com">www.canvestenvironment.com</a>	16 June 2019

As at the Latest Practicable Date, our Group has licenses to use the following trademarks:

Hong Kong Trademarks

Place of Registration	Registered Owner	The Mark	Trade Mark No.	Date of Registration	Expiry Date	Class
Hong Kong	Oceanic Ease Limited (海怡有限公司)		302434617	14 November 2012	13 November 2022	7, 9, 14, 36, 37, 38, 39, 40

PRC Trademarks

Place of Registration	Registered Owner	The Mark	Application No.	Date of Application/Registration	Class
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		10718145	1 April 2012	40
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司	 CANVEST	12982812	26 July 2013	37
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司	CANVEST	12071281	18 January 2013	7
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		12071255	18 January 2013	7
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		12982463	26 July 2013	14

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Place of Registration	Registered Owner	The Mark	Application No.	Date of Application/ registration	Class
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		12982992	26 July 2013	38
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		12982627	26 July 2013	36
PRC	Guangdong Canvest Investments Company Limited 廣東粵豐投資有限公司		12982409	26 July 2013	9
PRC	Guangdong Canvest Environmental Protection Investments Company Limited 廣東粵豐環保投資有限公司		6487662	28 March 2010	40

3. Information about the PRC subsidiaries of our Group

**Name:** 東莞市科偉環保電力有限公司  
Dongguan Eco-Tech Environmental Power Co., Ltd.

Date of establishment: 19 June 2003

Corporate nature: Limited liability company

Total registered capital: RMB120,000,000

Term: 30 years

Scope of business: Waste incineration power generation

Legal representative: Mr. CT Lai

**Name:** 東莞市科維環保電力有限公司  
Dongguan Kewei Environmental Power Co., Ltd

Date of establishment: 13 February 2009

Corporate nature: Limited liability company

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Total registered capital:	RMB160,000,000
Term:	32 years 8 months
Scope of business:	Waste incineration power generation
Legal representative:	Mr. CT Lai
<b>Name:</b>	<b>湛江市粤丰环保电力有限公司 Zhanjiang Yue Feng Environmental Power Co., Ltd</b>
Date of establishment:	3 April 2013
Corporate nature:	Limited liability company
Total registered capital:	RMB150,000,000
Term:	3 April 2013 to 3 April 2015
Scope of business:	Preparatory construction of waste incineration treatment project (No business operation during the preparatory stage)
Legal representative:	Mr. Yuan Guozhen
<b>Name:</b>	<b>东莞中科环保电力有限公司 Dongguan China Scivest Environmental Power Company Limited</b>
Date of establishment:	5 November 2004
Corporate nature:	Limited liability company
Total registered capital:	RMB110,000,000
Term:	25 years
Scope of business:	Waste incineration power generation
Legal representative:	Ms. Guo Huilian
<b>Name:</b>	<b>东莞市粤丰企业咨询管理有限公司 Dongguan Canvest Enterprise Consultancy and Management Company Limited</b>
Date of establishment:	10 April 2014
Corporate nature:	Limited liability company
Total registered capital:	RMB2,000,000

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Term:	Long term
Scope of business:	Enterprise management service, technology consulting service, engineering management service, engineering project planning, EPC, engineering project bidding agency and engineering project procurement agency
Legal representative:	Mr. Yuan Guozhen

**C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS**

[Redacted]

[Redacted]

[Redacted]

**2. Particulars of service agreements**

No Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**3. Directors’ remuneration**

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the three years ended 31 December 2013 and the six months ended 30 June 2014 were approximately HK\$1,403,000, HK\$2,663,000, HK\$3,474,000 and HK\$1,643,000, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2014 will be approximately HK\$3,476,000.

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- (c) Under the arrangements currently proposed, conditional upon [Redacted], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

**Executive Directors**

Ms. Loretta Lee	HK\$ 850,000
Mr. KM Lai	HK\$ 600,000
Mr. Yuan Guozhen	HK\$ 824,000
Mr. CT Lai	HK\$1,604,000

**Non-executive Directors**

Mr. Lui Ting Cheong Alexander	HK\$ 180,000
Mr. Lai Yui	HK\$ 180,000

**Independent non-executive Directors**

Professor Sha Zhenquan	HK\$ 180,000
Mr. Chan Kam Kwan Jason	HK\$ 240,000
Mr. Chung Wing Yin	HK\$ 180,000

**4. Fees or commission received**

Save as disclosed in the paragraph headed “Commissions and expenses” in the section headed “Underwriting” of this [Redacted], none of our Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this [Redacted].

**5. Related party transactions**

Details of the related party transactions are set out under Note 34 to the Accountant’s Report set out in Appendix I to this [Redacted].

**6. Disclaimers**

- (a) There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group.
- (b) None of our Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this [Redacted], acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

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- (c) None of our Directors or the experts named in the paragraph headed “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this [Redacted] which is significant in relation to the business of our Group taken as a whole.
  
- (d) Taking no account of Shares which may be issued pursuant to options which may be granted under our Share Option Scheme or pursuant to the exercise of the [Redacted] and without taking into account the arrangements under the [Redacted], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [Redacted], have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of [Redacted], or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.
  
- (e) None of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the SFO) which, once our Shares are [Redacted] on the [Redacted], will have to be notified to our Company and the [Redacted] pursuant to [Redacted] (including any interests and short positions which he will be taken or deemed to have under [Redacted]) or which will be required, pursuant to [Redacted], to be entered in the register referred to therein, or which will be required, pursuant to [Redacted], to be notified to our Company and the [Redacted]; and
  
- (f) So far as is known to our Directors, none of our Directors, their respective associates (as defined under the [Redacted]) nor our sole Shareholder who is interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.



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**D. SHARE OPTION SCHEME**

**(a) Definitions**

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	[●] 2014, the date on which the Share Option Scheme is conditionally adopted by the sole Shareholder by way of written resolution
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

**(b) Summary of terms**

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on [●] 2014. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the [Redacted].

*(i) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

*(ii) Who may join and basis of eligibility*

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

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*(iii) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the [Redacted] daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the [Redacted] daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been [Redacted] on the [Redacted] for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fallen within the period before [Redacted].

*(iv) Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.00.

*(v) Maximum number of Shares*

- (aa) Subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the [Redacted]. Therefore, it is expected that our Company may grant options in respect of [Redacted] (or such numbers of Shares as shall result from a sub-division or a [Redacted]) to the participants under the Share Option Scheme.
- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A [Redacted] must be sent to the Shareholders containing the information as required under the [Redacted] in this regard.
- (cc) Our Company may seek separate approval by the Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is

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sought. In such event, our Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the [Redacted].

- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

*(vi) Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a [Redacted] to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the [Redacted]. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

*(vii) Grant of options to certain connected persons*

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
- (i) representing in aggregate over 0.1% of our Shares in issue; and
- (ii) having an aggregate value, based on the [Redacted], in excess of HK\$5 million,

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such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a [Redacted] to the Shareholders containing all information as required under the [Redacted] in this regard. All [Redacted] of our Company shall abstain from voting (except where any [Redacted] intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

*(viii) Restrictions on the times of grant of options*

(aa) Our Company may not grant any options after inside information has come to its knowledge until it has announced the information. In particular, our Company may not grant any option during the period commencing one month immediately before the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the [Redacted] under the [Redacted]) for approving our Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the [Redacted]); and
- (ii) the deadline for our Company to announce the results for any year, or half-year under the [Redacted], or quarterly or other interim period (whether or not required under the [Redacted]).

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published:

- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

*(ix) Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

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*(x) Performance targets*

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

*(xi) Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

*(xii) Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

*(xiii) Rights on cessation of employment by death*

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee’s entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

*(xiv) Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offense involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee’s service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

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*(xv) Rights on cessation of employment for other reasons*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

*(xvi) Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial advisor to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the [Redacted], or any guideline or supplemental guideline issued by the [Redacted] from time to time (no such certification or confirmation is required in case of adjustment made on a [Redacted]), provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

*(xvii) Rights on a [Redacted]*

In the event of a [Redacted] (whether by way of [Redacted] otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/ or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

*(xviii) Rights on winding-up*

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the

aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

*(xix) Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapsed and determined. The Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

*(xx) Lapse of options*

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises our Company’s right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);

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- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) becoming effective, the date on which such compromise or arrangement becomes effective.

*(xxi) Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in a manner that complies with all applicable legal requirements for such cancellation.

*(xxii) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

*(xxiii) Alteration to the Share Option Scheme*

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the [Redacted] shall not be made except with the prior approval of the Shareholders in general meeting.
- (bb) Any amendment to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the [Redacted].



*(xxiv) Termination to the Share Option Scheme*

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

*(xxv) Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon the [Redacted] granting the [Redacted] of and [Redacted] pursuant to the exercise of any options which may be granted under the Share Option Scheme.

**(c) Present status of the Share Option Scheme**

Application has been made to the [Redacted] for the [Redacted] of and [Redacted] Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this [Redacted], no option has been granted or agreed to be granted under the Share Option Scheme.

**E. OTHER INFORMATION**

**1. Tax and other indemnities**

Mr. KM Lai, Ms. Loretta Lee, VISTA Co, Century Rise and Best Approach ( the “**Indemnifiers**”) have, under a deed of indemnity referred to in paragraph (f) of the sub-section headed “Summary of material contracts” in this Appendix, given joint and several indemnities to our Company for itself and as trustee for our subsidiaries in connection with, among other things, (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the [Redacted] becomes unconditional; (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which [Redacted] becomes unconditional; or (ii) in respect or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the [Redacted] becomes unconditional; (c) any penalties, claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any non-compliances, defects, administrative orders, litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal

proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the [Redacted] becomes unconditional. The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability in the audited consolidated financial statements of any member of our Group for the three years ended 31 December 2013 and the six months ended 30 June 2014; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the [Redacted] becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of our Group after 30 June 2014 up to and including the date on which the [Redacted] becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

## **2. Litigation**

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

## **3. Sole Sponsor**

The Sole Sponsor has, on behalf of our Company, made an application to the [Redacted] for [Redacted] as mentioned herein and our Shares [Redacted] pursuant to the exercise of any options granted under the Share Option Scheme and the exercise of the [Redacted].

The Sole Sponsor has confirmed to the [Redacted] that it satisfies the independence test as stipulated under Rule 3A.07 of the [Redacted]. The total amount of fees payable to the Sole Sponsor by our Company for [Redacted] is HK\$5.8 million.

## **4. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$39,000 and are payable by our Company.

## **5. Promoter**

Our Company has no promoter for the purpose of the [Redacted].

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**6. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this [Redacted]:

<b>Name</b>	<b>Qualifications</b>
CMS	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Shu Jin Law Firm	Legal advisers on PRC laws
PricewaterhouseCoopers	Certified Public Accountants
Maples and Calder	Legal advisers on Cayman Islands laws
American Appraisal China Limited	Independent property valuer and valuation specialist
Mott MacDonald (Beijing) Limited	Technical consultant
Mr. Vincent Lung	Barrister-at-law

**7. Consents of experts**

Each of CMS, Shu Jin Law Firm, PricewaterhouseCoopers, Maples and Calder, American Appraisal China Limited, Mott MacDonald (Beijing) Limited and Mr. Vincent Lung has given and has not withdrawn its written consent to the issue of this [Redacted] with the inclusion of its reports and/or letter and/or opinion and/or valuation certificate and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

**8. Binding effect**

This [Redacted] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the [Redacted] so far as applicable.

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**9. Taxation of holders of Shares**

(a) Hong Kong

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) Cayman Islands

Under the present laws of the Cayman Islands, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisors

Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the [Redacted] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

**10. No material adverse change**

Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since 30 June 2014 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this [Redacted].

**11. Miscellaneous**

(a) Within the two years immediately preceding the date of this [Redacted]:

- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash;
- (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
- (iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any of our Shares or shares of any of our subsidiaries; and
- (iv) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

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- (b) Neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (c) Save in connection with the [Redacted], none of the parties listed in the paragraph headed “Consents of experts” in this Appendix:
  - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.
- (d) The Hong Kong register of members of our Company will be maintained in Hong Kong by [Redacted]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into [Redacted].
- (e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this [Redacted].
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) We have no outstanding convertible debt securities.
- (h) Our Directors have been advised that, under the laws of the Cayman Islands, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene the laws of the Cayman Islands.
- (i) The English text of this [Redacted] shall prevail over the Chinese text.

**12. Bilingual [Redacted]**

The English language and Chinese language versions of this [Redacted] are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and [Redacted] from Compliance with Provisions) Notice ([Redacted] Laws of Hong Kong).

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**APPENDIX VII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this [Redacted] registered by the Registrar of Companies in Hong Kong were copies of the **WHITE, YELLOW and GREEN** [Redacted], the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this [Redacted], and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this [Redacted].

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons on 13th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this [Redacted]:

- (i) the Memorandum and the Articles of Association;
- (ii) the Companies Law;
- (iii) the accountant’s report on the historical financial information of the Group for the three years ended 31 December 2013 and the six months ended 30 June 2014 from PricewaterhouseCoopers, the text of which is set out in Appendix I to this [Redacted];
- (iv) the audited consolidated financial statements of our Group for the three years ended 31 December 2013 and the six months ended 30 June 2014;
- (v) the accountant’s report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this [Redacted];
- (vi) the property valuation report related to property interests of our Group prepared by American Appraisal China Limited, the text of which is set out in Appendix III to this [Redacted];
- (vii) the technical assessment report prepared by Mott MacDonald (Beijing) Limited, the text of which is set out in Appendix IV to this [Redacted];
- (viii) the letter prepared by Maples and Calder summarising certain aspects of the Companies Law as referred to in Appendix V to this [Redacted];
- (ix) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this [Redacted];
- (x) the rules of the Share Option Scheme;

**APPENDIX VII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (xi) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this [Redacted];
  
- (xii) the PRC legal opinions issued by Shu Jin Law Firm, our legal advisers as to PRC laws in respect of our general matters and property interests of our Group;
  
- (xiii) the Hong Kong legal opinion issued by Mr. Vincent Lung, barrister-at-law, in relation to the non-compliance of the Predecessor Companies Ordinance and the Companies Ordinance; and
  
- (xiv) the service agreements referred to in the paragraph headed “C. Further Information about Substantial Shareholders, Directors and Experts — 2. Particulars of service agreements” in Appendix VI to this [Redacted].