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### OVERVIEW

We are one of the leading waste-to-energy (“WTE”) companies in the PRC focusing on treatment of municipal solid waste. According to the 2013 annual research report published by *solidwaste.com.cn* and EY Advisory, we are among the first companies to explore industrial applications for waste management in the PRC, and one of the earliest enterprises to build, upgrade and develop advanced international incinerator technologies for waste treatment in the PRC. As of the Latest Practicable Date, we had seven WTE projects in operation (including two projects in commercial operation in Changzhou and Haining, and five projects in trial operation and expected to commence commercial operation in 2014 in Pingyang, Yongjia, Rushan, Taizhou and Wuhan), 11 projects under development and two projects in preparation for which we have signed non-legally binding framework agreements in the PRC, among which one project (Huizhou) commenced construction in late 2013, and we expect to commence the construction of three WTE projects by the end of 2014. In addition, as of the Latest Practicable Date, we have also signed non-legally binding framework agreements for two additional projects in Thailand and Malaysia. See “Our Projects—Project Facilities”. According to EY Advisory, as of December 31, 2013, we were among the top ten companies engaged in waste incineration in the PRC based on actual waste treatment capacity, with a daily waste treatment capacity of 5,250 tons and these top ten companies together accounted for more than one-third of the estimated total waste treatment capacity in the PRC. As of the same date, we ranked third among WTE companies and second among companies using grate incinerator technology in the PRC in terms of total contracted waste treatment capacity, with a total contracted waste treatment capacity of approximately 20,000 tons on a daily basis. Total contracted capacity includes the waste treatment capacity of a company’s projects in operation, under development and in the preparation stage. We had 20 projects in operation, under development or in the preparation stage across the PRC as of December 31, 2013, and ranked second among WTE companies and first among companies using grate incinerator technology in the PRC in terms of number of projects in operation or under development, according to EY Advisory. Our projects in the PRC have a broad geographic coverage encompassing the Yangtze River Delta region, Bohai economic rim and Pearl River Delta region, in addition to Hubei, Guizhou and Shanxi provinces.

We are engaged in the investment, technical consulting, construction, operation and maintenance of WTE plants in the PRC treating municipal solid waste using waste incineration technology. We provide three main services, namely project operation, project construction and technical consulting. Our project operation and project construction services primarily involve the construction and operation of WTE projects on a BOT basis for local municipal authorities in small and mid-sized PRC cities. Under the service concession contracts, we design and construct WTE plants which we then typically operate for a concession period of 23 to 30 years. We recognize construction revenue based on work performed for project construction. During the project operation phase, we earn waste treatment fees and electricity tariffs for the processing of waste and generation of electricity. Electricity produced by our WTE facilities (other than the amounts used for powering our own operations) is guaranteed to be purchased in full by power grid companies according to supportive governmental policies. In addition, we provide technical consulting services internally to members of our Group as well as externally to third parties, for which we receive a fee. In order to promote our technologies and expand our businesses, taking into account operation strategies and competition, we also intend to sell equipment and systems containing our patented technologies to other companies engaged in the WTE business and provide consulting services, including project planning, feasibility studies, project design, project integration and operation management services, and after-sale services such as installation, adjustments and technical assistance.

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The PRC's need for solid waste treatment stems from its growing population, urbanization and improved average incomes which will generate substantial growth in municipal solid waste and increase the need for environmentally sustainable municipal solid waste treatment solutions. The development of waste treatment in the PRC is still at an early stage of environmental infrastructure development, with the first group of WTE facilities having been developed between 2001 and 2005. As of December 31, 2012, the amount of municipal solid waste generated per year in the PRC's cities was 237 million tons, while total waste treatment capacity was estimated to be only 179 million tons per year, and only 19.0% of such waste treatment capacity was through incineration. The PRC government has adopted various policies favoring the WTE industry, and according to the Twelfth Five-year Plan, the proportion of waste treatment through incineration should increase to 35% by 2015. Most small or mid-sized PRC cities still lack appropriate waste treatment facilities. A WTE facility is considered part of a municipality's infrastructure and, in a small or mid-sized city, would typically enjoy a certain degree of geographical exclusivity to process waste from the city. We believe that the favorable policies and market dynamics in the PRC present significant opportunities for growth and expansion of our business.

We have developed a deep understanding of the characteristics of municipal solid waste in the PRC and have tailored our proprietary technologies to incinerate unsorted and high humidity waste with low heat values, which are typically found in PRC households. In particular, we apply grate incinerator technology, which enjoys advantages in performance, environmental protection and policy support compared to certain other types of incineration technologies. Leveraging our core technology, favorable industry dynamics, project management expertise and first-mover advantage, we have increased, and intend to continue increasing, our waste treatment capacity by expanding our operations in the PRC. We were recognized as one of the top ten influential enterprises in the PRC solid waste treatment industry in 2012 by *solidwaste.com.cn* and our multiple drive expeller grate waste incinerator technology was selected by the PRC Ministry of Construction as a core industrial technology to promote for use in the PRC WTE industry.

For the years ended December 31, 2011, 2012 and 2013, we generated turnover of RMB442.8 million, RMB932.1 million and RMB975.2 million, respectively, of which our project operation service generated RMB103.3 million, RMB114.0 million and RMB201.1 million, respectively, and our project construction service generated RMB313.0 million, RMB773.0 million and RMB714.9 million, respectively.

### **PRINCIPAL STRENGTHS**

We believe that we possess the following competitive strengths that differentiate us from our competitors in the WTE industry in the PRC.

#### **Market-leading position in the PRC WTE industry.**

According to EY Advisory, we were one of the first companies to explore industrial applications for waste management in the PRC, and were one of the earliest enterprises in the PRC to build, upgrade and develop advanced international incinerator technologies. Since we commenced operations in early 2000, we have accumulated nearly 13 years of experience in technological research relating to waste incineration project

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investment, operation and management. As of the Latest Practicable Date, we had seven WTE projects in operation (including projects in Changzhou and Haining, which are in commercial operation, and projects in Pingyang, Yongjia, Rushan, Taizhou and Wuhan, which are in trial operation and are expected to commence commercial operation in 2014), 11 WTE projects under development and two projects in preparation for which we have signed non-legally binding framework agreements in the PRC. Of these projects, one project (Huizhou) commenced construction in late 2013, and we expect to commence the construction of three WTE projects by the end of 2014. According to EY Advisory, as of December 31, 2013, we were among the top ten companies engaged in waste incineration in the PRC based on actual waste treatment capacity, with a daily waste treatment capacity of 5,250 tons. As of the same date, we ranked third among WTE companies and second among companies using grate incinerator technology in the PRC in terms of total contracted waste treatment capacity, with a total contracted waste treatment capacity of approximately 20,000 tons on a daily basis. Total contracted capacity includes the waste treatment capacity of a company's projects in operation and under development. We had 20 projects in operation or under development across the PRC as of December 31, 2013, and ranked second among WTE companies and first among companies using grate incinerator technology in the PRC in terms of number of projects in operation or under development, according to EY Advisory. Our projects have a broad geographic coverage encompassing the Yangtze River Delta region, Bohai economic rim and Pearl River Delta region, in addition to Hubei, Guizhou and Shanxi provinces. Our technologies and operations meet international standards and we were the first company in the PRC WTE industry to receive accreditation under the Clean Development Mechanism (“CDM”) of the United Nations.

We are a state-owned enterprise (“SOE”). Beijing State-Owned Assets Management Co., Ltd (“BSAM”), a large-sized state-owned investment company authorized by the Beijing municipal government, became our Controlling Shareholder in 2005. Our status as an SOE enhances our credibility and allows us to compete more effectively for WTE projects with municipal governments. In addition, our status as an SOE enhances our credit strength for financing with financial institutions. Leveraging our market-leading position, our well-established track record and our SOE status, we are able to effectively compete for new WTE projects and expand our business.

### **Favorable industry dynamics and supportive government policies.**

The PRC's need for efficient and environmentally-friendly treatment of solid waste stems from its growing population and urbanization. In light of the country's economic development, the government has emphasized the need for environmentally-friendly waste treatment and clean energy. According to EY Advisory, as of December 31, 2012, the amount of municipal solid waste generated per year in the PRC's cities was 237 million tons (or 0.9-1.2 kg per capita per day), while the total waste treatment capacity was estimated to be only approximately 179 million tons per year, and approximately 19% of such waste treatment capacity was through incineration. The “National Plan for Establishing Facilities for Treatment Of Urban Household Waste in a Non-Hazardous Way 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) envisages the proportion of waste treated by incineration to increase to 35% of the PRC's aggregate waste treatment capacity by 2015. During the same period, waste incineration capacity is expected to increase to 215,542 tons per day, with a projected CAGR of over 23% from 2012 to 2015. Furthermore, EY Advisory estimated that the number of operational WTE projects in the PRC will increase from 131 in 2012 to 188 in 2014, while the total

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waste treatment capacity will increase from approximately 113,380 tons per day in 2012 to approximately 173,994 tons per day in 2014. Our business is ideally suited to meet the PRC's increasing need for environmentally-friendly waste treatment and we are well-positioned to capitalize on the expected growth of the PRC WTE industry.

In support of the WTE industry, the PRC government has adopted various policies which may benefit us. Under the Environmental Protection Law (環境保護法) and Renewable Energy Law (可再生能源法), the development of environmentally sustainable methods of waste treatment and power generation has been made a national priority. As a result of supportive government policies, we benefit from government subsidies and preferential tariffs for electricity generated from renewable resources, favorable VAT tax treatment for WTE plants, favorable corporate tax treatment and subsidies for construction of WTE facilities. For example, electricity generated from WTE plants are provided preferential tariffs, which are typically 30-50% higher than tariffs for electricity generated from coal-fired power plants. In March 2012, the NDRC issued "Notice in Relation to the Optimization of Waste-to-Energy Power Tariff Policy" (關於完善垃圾焚燒發電價格政策的通知), which set the power tariff benchmark for all electricity generated by WTE projects in the PRC that incinerate municipal solid waste at RMB0.65/kWh, subject to certain conditions and approvals from relevant authorities, effective from April 1, 2012. In addition, electricity generated from WTE plants receives priority access when on-selling to power grids, ensuring that all the power produced is sold.

We believe that the anticipated growth in the PRC waste treatment industry and strong government support provide us with significant opportunities to expand our business operations.

### **Well-developed proprietary technologies adapted to the PRC waste treatment processing market.**

We have developed and patented proven technologies well suited to the PRC waste treatment market. As a result of our extensive experience in the PRC waste treatment industry, we have developed a deep understanding of the characteristics of municipal solid waste in the PRC. Our technologies are tailored to incinerate unsorted and high humidity waste with high ash content and low heat values typically found in PRC households. We apply grate incinerator technology which, according to EY Advisory, has competitive advantages in performance, environmental protection and policy support as compared to the circulated fluidized bed technology used by many of our competitors and will likely gain further traction in the PRC.

We have received industry recognition for our technologies. Our Changzhou facility was recognized by China Association of Environmental Protection Industry as a "National Model Project for Use of Environmental Protection Technologies" in 2013. Further, since 2008, we have enjoyed preferential tax treatment due to our status as a high-tech enterprise.

We hold various patents for our proprietary technologies, including our mechanical grate furnace incinerator technology. In particular, our multiple drive expeller grate waste incinerator technology was selected by the Ministry of Construction as a core industrial technology to promote. We developed this technology based on more than ten years of practical experience in the PRC, specifically tailoring widely employed international

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incinerator technologies for the typical composition of municipal solid waste in the PRC. Because of our proprietary technology, we are able to offer competitive pricing to our customers as compared with companies using similar imported technologies, further enhancing our market position.

### **Socially responsible and environmentally-friendly enterprise.**

We are a socially responsible enterprise dedicated to environmentally-friendly treatment of solid waste and promoting environmental awareness. We believe that incineration treatment, which is the most effective treatment method for reducing the toxicity and volume of municipal solid waste and transforming it into a useful resource, will be the primary approach in the development of the waste treatment industry in the PRC going forward. The advantages of incineration treatment over other waste treatment technologies include its optimal reduction of waste, thorough sterilization, relatively minimal environmental impact, energy recycling capability and high processing efficiency. We prioritize the control of environmental emissions from our WTE projects and our operations strive for strict compliance with all applicable national environmental regulations. In particular, we have successfully reduced our dioxin emissions such that our emissions are significantly below the limits set by national PRC emission standards and are able to meet the standards specified in Directive 2000/76/EC of the European Parliament and of the Council issued by the EU for waste incineration in December 4, 2000. According to EY Advisory, the standard for dioxin emissions for new waste incineration projects in Europe and Japan is below 0.1ng-TEQ/Nm<sup>3</sup>, whereas the current PRC standard is 1.0ng-TEQ/Nm<sup>3</sup>. While our projects in trial operation must, before commencing commercial operation, file an application with the competent administrative department of environmental protection for environmental protection acceptance for construction projects, which includes a dioxin emission inspection report prepared by a third party with appropriate qualifications, dioxin emission levels for our projects in commercial operation are also regularly inspected by such qualified third parties and the relevant local environment protection bureau. During the Track Record Period, both of our projects in commercial operation (the Changzhou and Haining projects) passed all dioxin emission inspections required by relevant regulatory authorities and were able to meet the international dioxin emission standard (below 0.1 ng-TEQ/Nm<sup>3</sup>) in the majority of inspections. Among our projects in trial operation, the Pingyang and Yongjia projects have also met the international dioxin emission standard in emission inspections conducted for environmental protection acceptance for construction projects, while our Rushan, Taizhou and Wuhan projects are still awaiting inspection or result of inspection. In addition, we usually work closely with local authorities and communities on the construction site selection. We also regularly invite representatives from local authorities and communities to visit our operational facilities to introduce our technology on environmental emission control. As a result, some of our facilities have become local environmental education centers which host various educational events and discussions.

We also adhere to international standards in our approach to operation quality and safety, including the ISO 9001 quality assurance standard, the ISO 14001 environment management standard and OHSAS18001 occupational health and safety management standard. In addition, we have maintained a good safety record with no fatality incidents during the Track Record Period.

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### **Ability to deliver comprehensive service to customers and generate stable revenue.**

We believe we are able to deliver a comprehensive range of municipal solid waste treatment services to our customers, who are typically local municipal authorities and power grid companies. Currently, substantially all of our WTE projects are BOT projects for which we are responsible for the cost of constructing the treatment facilities and the operation of the facilities during the concession period, which is typically 23 to 30 years. In accordance with service concession contracts, our BOT projects will receive a steady supply of solid waste which is collected by municipal governments. The BOT model provides us with construction revenue as well as recurring revenue both from operating fees for treating the municipal solid waste and sale of electricity and other by-products generated during the incineration process.

We also provide professional services tailored to our customers' requirements, such as consulting services for general project planning, feasibility studies, project design, core equipment technology, project integration and trial operation and maintenance, and we supply by-products from our operations. For example, we provided construction management services to Tongcheng Incineration and Power Generation Company under which we oversaw the construction and trial operation of a WTE plant in Tongcheng. In addition to providing electricity to power grids, our Changzhou facility also provides steam and hot water generated from the incineration process to local customers near the facility. Our BOT business model for developing WTE projects, combined with our customized professional services offerings and a customer base primarily made up of municipal government authorities, provide us with a steady and predictable revenue stream.

### **Stable and experienced management team with proven track record of success.**

Our senior management team has extensive experience in business management, market development, technology development and the construction, operation and management of WTE plants, combined with a deep understanding of the PRC waste treatment industry. In particular, our General Manager, Mr. Qiao Dewei, was recognized as an environmental governance industry leader in a 2011 survey of the top 100 industry leaders in Shenzhen. Our Chief Engineer, Mr. Lu Juliu, has more than 50 years of experience in the design and management of industrial machinery and was among the first group of engineers in the PRC to specialize in the waste treatment industry. The majority of our senior management team has been working together for nearly ten years. Under their leadership, we have established a track record of successful project development, as demonstrated by our operational facilities in the cities of Changzhou, Haining, Pingyang, Rushan, Taizhou, Wuhan and Yongjia and our capability to secure projects for future development. With the guidance of our senior management team, our operations team is able to employ targeted strategies based on their detailed understanding of waste treatment technologies and the operation and management of WTE plants. We also benefit significantly from the accumulated expertise and hands-on experience of our highly qualified technical personnel which ensure our competitive advantage in project quality and research and development. We believe that our strong management team enables us to continue improving the efficiency of our operations, the quality of our product offerings and our ability to satisfy our customers' requirements.

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### BUSINESS STRATEGIES

We seek to enhance shareholder value by maintaining and enhancing our leading position in the WTE industry in the PRC through expanding our market share and broadening the scope of our services. The strategies we have adopted to attain this goal include the following elements:

#### **Consolidate our leading position in the municipal solid waste incinerator market.**

We have established a strong market position in the PRC. As at December 31, 2013, we had eight projects in the Yangtze River Delta region, six projects in the Bohai economic rim and two projects in the Pearl River Delta region in operation or under development. In addition, we also have projects strategically located in the provinces of Hubei, Guizhou and Shanxi. We intend to expand our geographical coverage by further enhancing our business in such regions and expanding into other adjacent markets. We intend to finance our expansion through internal resources of our Group as well as available banking facilities from financial institutions, including but not limited to the loan from the Asian Development Bank granted to us in April 2013. There are more than 500 small or mid-sized PRC cities and most do not have appropriate waste treatment facilities. The Twelfth Five-Year Plan envisioned significant growth in the WTE industry to address this need, and such growth is expected to continue thereafter. We believe that the lack of an appropriate waste treatment infrastructure for municipal solid waste in small and mid-sized PRC cities, together with the increasing urbanization trend and our strong product and technology offering, will present us with opportunities to expand our business and extend our leading market share in the PRC.

We will continue to focus on markets with increasing standards of living and rising waste treatment requirements. Our primary target customers are developed small and mid-sized PRC cities with a population over 400,000 inhabitants, especially those cities with a population in the range of 400,000 to 1,200,000 inhabitants, which generally have per capita waste production of 0.9-1.2 kg per day. In order to serve this target market, we intend to expand our focus on WTE plants for municipal solid waste with waste treatment capacity of between 400 and 1,200 tons per day. From time to time, we also enter into binding BOT agreements to strategically secure the rights to build and operate WTE plants, even where we understand that project development would not commence immediately. A WTE facility is considered part of a municipality's infrastructure and, in a small or mid-sized city, would typically enjoy a certain degree of geographical exclusivity to process waste from the city. Signing a BOT agreement with the relevant municipal authority ensures that when there is sufficient demand in the municipality and other conditions are met, we will be the company which builds and operates the WTE facilities. In addition, given the increasing regulatory focus on environmental standards in the PRC, we also anticipate increasing opportunities to expand our BOT portfolio by investing in areas where opportunities exist for us to regionalize waste treatment for surrounding towns or cities. We believe our strategically placed projects across the PRC will serve us well when tendering for future projects.

#### **Continue to develop and promote new core technologies.**

We plan to enhance our competitiveness through technological innovation and improvements. We are continuously exploring the development of new incineration technologies and processes to meet the needs of the

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waste treatment industry in the PRC. In particular, we intend to focus on the development of grate incinerators based on our current 350-ton grate incinerator technology to better serve the incineration requirements of different types and sizes of cities. We seek to improve our 350-ton grate incinerator and are currently designing equipment to enhance the performance and efficiency of this technology. We are also currently in the process of designing a 400-ton grate incinerator.

In addition, we plan to develop new processes and technologies, including technologies to reduce gas, waste water (leachate), ash and odors, to enhance the efficiency of our WTE plants and better control our environmental emissions and to process other types of solid waste. In particular, we plan to develop waste incineration flue gas purification processes and oxygen-enriched waste incineration processes in 2014-2015. We are currently conducting feasibility studies for these research and development initiatives. We believe that continued technological innovation will enable us to maintain our position at the forefront of the PRC WTE industry while enhancing the efficiency and reducing the environmental impact of our WTE operations. In 2010, we established a research institute dedicated to the development of environmentally-friendly technologies. We also collaborate with industry-renowned experts and research institutions. In particular, we entered into a strategic cooperation framework agreement with Huazhong University of Science and Technology's State Key Laboratory of Coal Combustion and Wuhan Iron and Steel (Group) Company Limited to research and develop oxygen enrichment incineration technology.

By promoting our newly developed core technologies in the industry and promoting the adoption or application of our technologies at other WTE plants, we believe we will be able to further expand our presence as a provider of WTE-related consulting and technical services.

### **Further expand into new business areas and broaden the scope of our services.**

Leveraging our core expertise in municipal solid waste treatment and WTE, we intend to expand our business into the treatment of other similar types of solid waste and undertake other bio-energy operations. For example, we have undertaken internal studies with regard to expanding our bio-energy operations and our project in Ninghe is expected to produce bio-energy through the incineration of straw, which enjoys a preferential on-grid electricity tariff of RMB0.75 per kWh (inclusive of VAT) for electricity generated through bio-fuels. The bio-energy segment is relatively undeveloped in the PRC and we believe that our well-developed technologies and experience in WTE industry position us well to take advantage of such opportunities. In assessing the feasibility of our plans to undertake other types of solid waste treatment and expanding our bio-energy operations, we consider a number of factors, including the cost and time required to develop the necessary technology and train or hire qualified technical personnel. We will undertake these expansion plans when we believe such operations will generate profit margins comparable to, or greater than, those of our existing operations. However, we currently do not have a specific timeframe for implementing these expansion plans.

In addition, we will promote our technical consulting service and sales of incinerators containing our proprietary technologies. In particular, we plan to provide WTE plant maintenance, operation management and equipment repair services for our WTE projects as well as to third parties. We believe that expanding our business into other solid waste treatment and bio-energy operations allows us to leverage our strength in technologies and diversify our revenue.



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Furthermore, we may implement new business models to further diversify our operations. We may adopt BOO and/or BT models when cooperating with municipal governments to construct WTE projects. Please see “— Business Operations — Other business models” below for a discussion of how BOO and BT models differ from the BOT business model. We may also invest in new projects through joint ventures to reduce our project risk and promote collaboration with industry peers. We believe that adopting new business models will enable us to develop a greater number of projects while controlling the risks associated with such investments.

### **Expand internationally into other markets.**

As a mid- to long-term strategy, we intend to expand our business into Asian markets outside the PRC. We have not previously focused on international expansion due to the significant business opportunities in the PRC. However, we plan to leverage our technological strength in treating waste with high humidity and low heat values and gradually expand our operations into developing Asian countries that have waste with similar characteristics. We intend to selectively enter these countries initially through the provision of technical services, and gradually undertake BOT projects. As of the Latest Practicable Date, we have signed non-legally binding frameworks agreements to participate in the design and construction of WTE facilities in Malaysia and Thailand. Before entering into commitments for such projects, we conduct an evaluation of various factors including the economic and political environment of the country, relevant rules and regulations, the condition of the local environmental industry and the specific characteristics of the municipal solid waste that would be processed at the relevant facilities. By selecting project sites with favorable regulatory environments and characteristics of municipal solid waste similar to the PRC, we can leverage our technological expertise and the experience of our management team. As our overseas projects are still in the initial planning stages, we have yet to establish specific investment commitments or timelines. We believe that developing countries in Asia will present growth opportunities for our WTE business in the future. Our prudent approach to entering such markets will allow us to expand our business while reducing the associated risks.

### **BUSINESS OPERATIONS**

We are engaged in the investment, technical consulting for, construction, operation and maintenance of WTE plants in the PRC. We primarily build and operate WTE plants on a BOT basis. We design and construct WTE plants which we then typically operate for a concessionary period of 23 to 30 years. Based on the terms of the BOT agreements and internal projections, the estimated average project investment payback period for each BOT project from the time of commencement of the respective BOT plant’s operations is approximately 8 to 12 years. We generate revenue from the operation of WTE plants, through receiving waste treatment fees and on-grid electricity tariffs, and from engineering, procurement and construction of WTE plants, which includes providing consultancy services, system integration, designing of waste treatment installations, procurement of waste treatment equipment and project construction, among others. Accordingly, our business operations can be divided into three main services: project operation, project construction and technical consulting, of which our project operation and project construction services accounted for substantially all of our total revenue during the Track Record Period.

### **BOT business model**

We are involved in the construction and operation of WTE plants through our participation in BOT projects. In order to generate recurring revenue and to strengthen our market position in the municipal solid waste treatment industry, we provide services for the entire value chain including the operation of WTE plants through BOT projects. The typical mode of a BOT project relating to WTE plants can be described as follows: a government or other municipal authority which is responsible for waste treatment selects a third party for the construction and operation of a WTE plant by initiating a tender process or by other means. The third party company submitting a bid is required to provide its qualification and track record, and must provide evidence of its ability to finance the project and the availability of the required personnel for installation and operation before being awarded a concession contract. After accepting a company's offer, the government grants a land use right for the concession period. With regard to BOT projects in the waste treatment industry, the concession period for operations is typically 23 to 30 years. The company that is awarded the contract will either establish a project company or perform the BOT project itself. It must secure financing for the project and is responsible for the construction and operation of the entire plant. Upon request of the customer, the project company may be required to post a performance guarantee or security deposit for the project. See “— Product Warranty and Performance Guarantee”.

In return, the customer agrees on a fixed minimum amount of waste (tons per day) that will be treated of for a fixed price, and certain BOT agreements may take into account inflation during the term of the concession. The project company is also allowed to sell by-products such as electricity, steam or hot water that can be generated from the incineration process. Upon expiration of the concession period, ownership of the project facilities will be transferred to the customer. The PRC government provides strong support for environmentally sustainable waste treatment methods. The BOT model has in recent years become increasingly popular in the PRC, especially for large projects which municipal governments are not able to finance on their own. As a result, the BOT model is commonly regarded as a viable solution in the PRC to install and maintain an efficient waste management system, and the operating company achieves a reliable revenue from the operation of the project.

The fair value of construction services of each BOT project is assessed by an independent valuer. The independent valuer assesses the fair value of construction services of a BOT project by considering the budgeted construction cost and the estimated return on cost for the project, which will be considered as mark-up for our projects. We estimate the budgeted construction cost based on our assessment of market conditions, costs of raw material and equipment, and other operating costs, among other factors. In order to assess the estimated return on cost, the independent valuer would make reference to the relevant operating margins, as of the respective valuation dates, of similar engineering companies that provide services to energy companies. Operating margin is the percentage of profit on sales revenue from which the independent valuer would derive the return on cost.

The mark-ups for our projects during the Track Record Period ranged from 16% to 28%. As companies typically need to obtain a BOT concession agreement through a tender (public tender or tender by invitation) or a competitive negotiation process, and because we have maintained a stable market position in the past, the mark-ups for our WTE projects are similar to those of other major market participants in the industry. Our project construction turnover has a direct and linear relation to our mark-up. A one percent increase or decrease in the

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mark-up of our projects during the Track Record Period would result in a consistent change of 0.8% to 0.9% to our project construction turnover for the relevant projects. A five percent increase or decrease in the mark-up of our projects during the Track Record Period would result in a consistent change of 3.9% to 4.3% to our project construction turnover for the relevant projects.

Our independent valuer, Grant Sherman Appraisal Limited, is a professional firm providing valuation and consulting services for a wide range of industries and business functions including valuation of construction services. Grant Sherman Appraisal Limited was established in 2002 and its clients mainly include listed companies and private companies in Hong Kong, Macau, the PRC and other countries.

In accordance with IFRIC 12, the value of revenue from project construction is allocated between intangible assets and gross amounts due from customers for contract work. Gross amounts due from customers for contract work relates to the guaranteed waste treatment fee from the relevant government authority as stipulated in the relevant BOT concession agreements. The portion allocated as intangible assets is calculated based on the fair value of the BOT construction services less gross amounts due from customers for contract work.

The accounting entries for a BOT project are different during the construction phase and operational phase. These differences affect our revenue recognition, cash flows and profitability during the relevant periods, largely as a function of the number of projects in operation versus those under construction. In accordance with IFRIC 12, we recognize revenue from a BOT project during both the construction phase and the operational phase. For more information on the accounting treatment of our BOT projects, please see the sections headed “Financial Information — Critical Accounting Policies and Estimates and Judgments” and “Financial Information — Description of Selected Income Statement Line Items” in this prospectus.

For the years ended December 31, 2011, 2012 and 2013, we generated turnover of RMB313.0 million, RMB773.0 million and RMB714.9 million, respectively, for our project construction service. During the same periods, we generated turnover of RMB103.3 million, RMB114.0 million and RMB201.1 million, respectively, from our project operation service. The relative shares of our turnover generated by the project construction and project operation services during these periods were 70.7% to 23.3%, 82.9% to 12.2% and 73.3% to 20.6%, respectively. The relatively higher proportion of turnover from our project construction service during the Track Record Period is primarily attributable to a high volume of construction works from the expansion of our business with new projects in Pingyang, Yongjia, Rushan, Taizhou and Wuhan. For a description of our projects, please see “Our Projects — Project Facilities”.

### **Other business models**

While we develop and operate our current projects on a BOT basis, we may adopt “build-own-operate” (“**BOO**”) and/or “build-transfer” (“**BT**”) business models in the future. BOO and BT business models differ from the BOT business model in many respects. Descriptions of the BOO and BT business models are presented below.

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### *BOO business model*

Under a BOO business model, the project company is responsible for financing, designing, constructing, operating and managing the project. The project company owns and operates the facility independently and retains all of the surplus operating revenue. In general, the project company is responsible for financing the project, including the relevant land acquisition costs. BOO projects are typically financed through a combination of equity and bank loans secured by the project company's assets. Similar to BOT projects, BOO projects entail a certain financing risks as significant capital is required during the construction phase and the projects have long payback periods. Local governments generally do not provide direct funding for BOO projects, but may offer other financial incentives such as preferential tax treatments.

The accounting treatment of a BOO project may be different from that of a BOT project under certain circumstances and would be determined in accordance with relevant accounting policies. In some circumstances, the accounting treatment of BOO projects is substantially similar to that of BOT projects. However, in other circumstances, turnover may only be recognized when waste treatment services are rendered during the project operation phase. Costs related to the construction of the WTE facilities, including payments to third-party contractors and cost of equipment and components, would be capitalized as fixed assets. Depreciation of such property, plant and equipment would be recognized in profit or loss over the estimated useful lives of their estimated residual value.

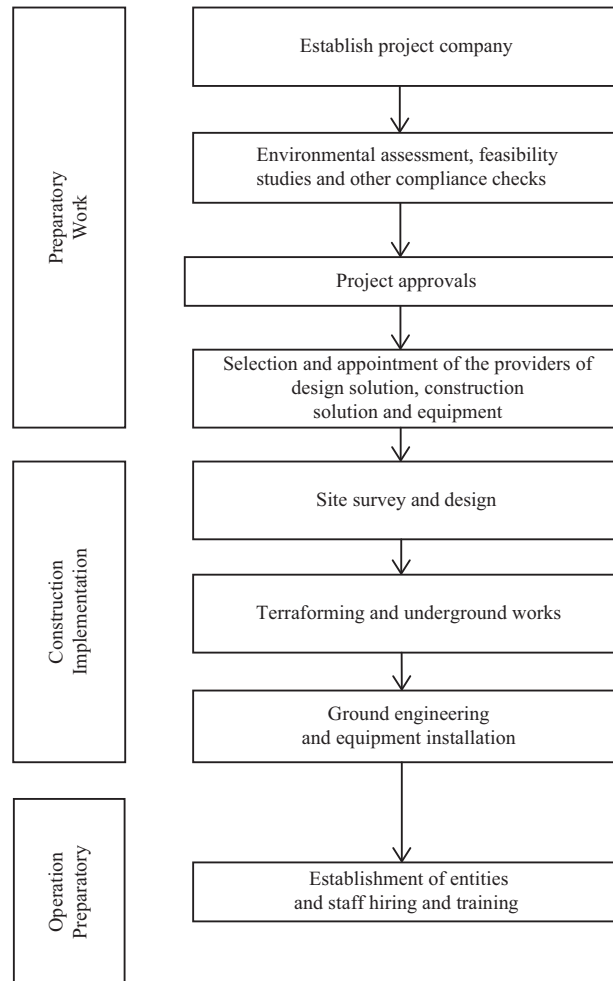
### *BT business model*

Under a BT business model, the project company is responsible for the investment, financing and construction of a project. Upon completion of construction, the project company transfers the facility to, and recovers its investment from, the relevant local government authority. BT projects typically include a fixed contract price and the project company generally bears the risk of any cost overruns in the construction process. We may be required to construct a portion of certain of our projects under a BT model. For example, the construction of auxiliary facilities for our Huizhou project will be performed on a BT basis.

When the outcome of a BT contract can be estimated reliably, contract revenue and contract costs associated with the construction are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on a BT contract is recognized as an expense immediately.

## Project construction

Our project construction service primarily involves the construction of WTE plants. Under service concession contracts, we design and construct WTE plants which we then operate for a concession period of typically 23 to 30 years. The project construction process typically comprises the preparatory work phase, construction implementation phase and operation preparatory phase illustrated in the diagram below:



### *Preparatory work*

During the preparatory work phase, we establish the project company and provide, or subcontract third parties to provide, various services including consultancy services, project planning, basic and detailed design, waste treatment system installations and system integration, among others. The approvals from the relevant local Development and Reform Commission office are obtained at the preparatory work phase for which we typically need to submit an environmental impact assessment report and a project application report.

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We generally engage contractors for services that we do not perform ourselves, including design services, construction and provision of equipment. We select contractors based on the location and technical requirements of our projects. We choose our contractors mainly through a tender process. We follow applicable laws and regulations on bidding and we seek to engage reputable contractors. We conduct due diligence on potential contractors before their appointment and typically examine factors including their track record, technical qualifications and certification. Our contractors are typically independent third parties and the length of our relationships with major contractors ranges from one to three years.

Our standard contractor construction contracts typically provide for a fixed price payable by us and include a construction schedule based on the construction schedule set out in our master agreement with our customer. We make progress payments to our contractors at various stages of completion. The contractors are typically responsible for procurement of raw materials relating to the services they provide. The contractors provide warranties in respect of the quality and timely completion of their work scope in their construction contracts. In the event of any delay or poor quality of work, the contractor is required to repair the defects and may be required to pay damages to us under the relevant construction contract. In addition, we are typically entitled to terminate the contract if the contractor fails to perform its obligations.

### *Construction implementation*

The construction implementation phase includes site survey, terraforming, foundation preparation, facility construction and equipment installation. During the construction implementation phase, we contract our construction and installation work to our contractors, who may in turn further contract with sub-contractors to perform the required work. Waste treatment equipment, including the incinerators which typically use our proprietary technology, is procured and installed during the construction implementation phase. For each project, we have an on-site project management team. The team can draw on the resources of each of our operations departments during any stage of a project, giving the team full access to the extensive knowledge and experience of our various departments. During construction and installation, our on-site project management team monitors the progress of our contractors and subcontractors to ensure that they comply with our quality control standards. Our municipal customers also employ external supervisory companies to monitor the quality of the raw materials and the construction progress of the project in accordance with regulatory requirements.

### *Operation preparatory*

Upon the completion of the construction of the WTE facilities and the installation of equipment, we conduct trial operations of the facilities to examine their operational efficiency and whether the operational capabilities meet the customer's specifications. If the test results are satisfactory, our project management team will submit the completion report to the customer and/or its supervisory company for approval. The project management team will then arrange a site visit for all relevant parties, including our design department and construction team and the customer's construction team, to inspect the facility and identify any issues raised by the customer requiring rectification. Before trial operation and commissioning, we will hire and train operations personnel, establish specific operational procedures and provide operational documents during the preparatory stage. A project enters the trial operation stage after receiving relevant approvals from the municipal authorities.

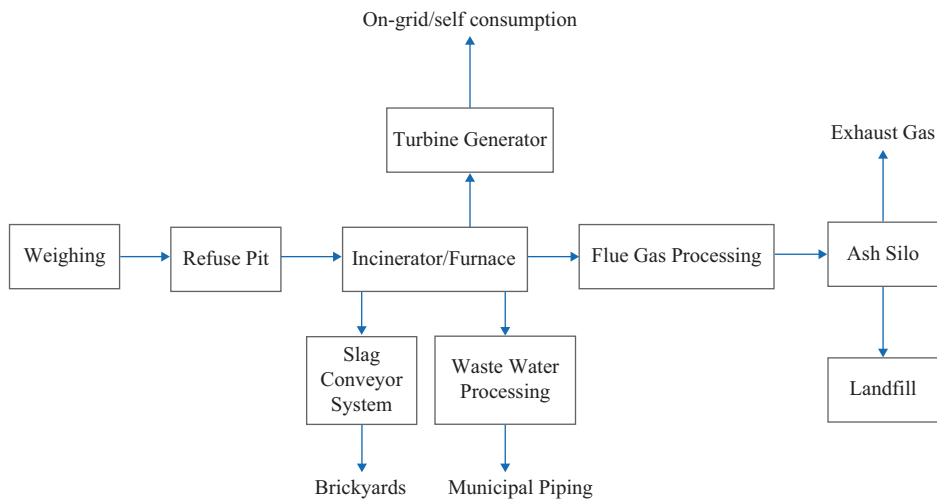
### **Project operation**

Municipal solid waste consists of items such as refuse from households, non-hazardous waste from commercial and public entities, market waste and street sweepings. Our facilities are designed to reduce the toxicity and volume of municipal solid waste while turning it into a useful resource. In particular, we treat municipal solid waste and generate electricity using WTE technology, which involves the combustion of waste material to reduce the volume of waste while generating steam, and consequently electricity, as a by-product. While some of our peers use fluidized bed combustion technology which adds coal to compensate for the low calorific value of waste, we apply grate incinerator technology, which is relatively mature, produces optimal results and has competitive advantages in terms of performance, environmental friendliness and government support, according to EY Advisory.

The operation of our solid waste treatment business mainly comprises the following:

- waste reception, storage and feeding system;
- incineration process; and
- residue processing system.

The following flow diagram illustrates the operation of our WTE plants:



### ***Waste reception, storage and feeding system***

Municipal solid waste is delivered by local municipal authorities to our WTE plants by garbage trucks. Upon arrival, the truck filled with waste is weighed by a platform balance. Waste reception volumes are calculated as the difference between the weight of the truck filled with waste and that of the empty truck when it exits. The relevant information on the municipal solid waste is then recorded in our computer system automatically.

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After the truck filled with waste is weighed, the waste is unloaded through the waste reception hall and refuse discharging door into the refuse pit. The empty truck is weighed again upon leaving the facility to determine the amount of waste off-loaded. The waste is then left to ferment for three to six days in the refuse pit, which at the same time allows leachate to drain away for separate processing. The municipal solid waste is then transported by the waste crane to the feeder and burnt in the incinerator.

### *Incineration process*

Our waste incineration system can be broken down into three main components, namely the incinerator, the boiler furnace and the gas scrubbing system. The incineration process can be further separated into five stages:

- (1) The gas combustion system blows combustible gases into the waste which mixes with these gases in the incinerator's primary chamber, bringing about vaporization and combustion. Compounds containing high amounts of hydrocarbons and non-combusted matter are then subject to a second infusion of combustible gases in the secondary combustion chamber.
- (2) Chemical and heat energy produced by the combustion process are used to create steam, which drives a turbine generator to produce electricity that is routed to the power grid.
- (3) After heat extraction and cooling, flue gases pass through the gas scrubbing system before being released through the gas exhaust vent.
- (4) Slag produced by the incineration process is passed through the slag conveyor system. Ash collected in the boiler and flue gas processing systems is first solidified using a special process and then disposed of safely in a landfill.
- (5) Wastewater or leachate produced during each stage of incineration is sent to the wastewater processing system to be treated, after which it is discarded upon meeting applicable safety and environmental standards.

Each stage of the incineration process is controlled by automatic systems.

### *Residue processing system*

The incineration of municipal solid waste will result in slag, ash and waste water (leachate) being produced. Slag after combustion drops into the slag conveyor system for cooling down. It is then recycled by brickyards, which will use the slag for manufacturing bricks. Slag is also used as fillings for the construction of roads.



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Ash collected by flue gas cleaning devices is processed through an air convey system and delivered to an ash silo for temporary storage. It is then sent to the solidifying workshop by a sealed self-loading truck, going through a series of distribution, mixing, pressing and drying processes. The ash will be used for cement conservation or turned into solids and sent by trucks to a hazardous waste landfill to be buried in accordance with applicable regulations. Waste water (leachate) is also treated according to prevailing national requirements prior to being released into the municipal piping.

### *Incinerator technology*

We use grate incinerators for the incineration of municipal solid waste, which is characterized by a high degree of humidity and a low heat value. The combustion process is initiated by adding limited amounts of fuel to raise the temperature to above 850°C. Air inflow is primarily based on natural ventilation from the oven feeder to the chimney. Grate incinerators are commonly used for processing large amounts of waste as they are able to generate electricity as a by-product from the incineration of large volumes of waste.

Our incinerators for municipal solid waste are specifically designed to incinerate unsorted waste and our incineration plants generally have waste treatment capacities of between 500 and 1,200 tons per day. Our technology is capable of efficiently disposing of municipal solid waste, which is generally characterized by a high degree of humidity and low heat value. Our models for the incineration of municipal solid waste operate with low quantities of fuel and/or auxiliary energy supply.

We possess the patent for the multiple drive expeller grate waste incinerator, which places us at the forefront of grate incinerator technology for power generation from municipal solid waste. In addition, the new on-grid pricing policy specifies a ratio of 280kwh of electricity generated for every ton of waste received, which is designed to prevent potential abuse of the policy by companies adding extra coal in the power generation process to obtain additional tariff subsidies. We believe that our own research and development capabilities enable us to optimize our waste treatment processes and technologies to comply with future relevant rules and regulations in the WTE industry. The current national on-grid tariff for electricity generated from qualified WTE projects in RMB0.65 per kWh (inclusive of VAT), subject to regulatory approvals. Certain of our projects are in the process of applying for these approvals.

Demand for municipal solid waste incinerators has increased over the past few years. As a result of the increasing urbanization in the PRC and the growing awareness for environmentally sound waste treatment methods, the demand for municipal solid waste incinerators is expected to grow significantly over the next several years. We intend to participate in this growing market by focusing on customized products for small and mid-sized PRC cities with populations ranging between 400,000 and 1,200,000 inhabitants.

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### OUR PROJECTS

#### Project Investment

The following table shows the total investment amount of each of our BOT projects, the proportion of each total investment amount to be funded by debt and equity, respectively, the status of such funding as of the Latest Practicable Date and the counterparties to each of our BOT agreements:

<u>BOT Project</u>	<u>Actual/ Estimated investment<sup>(1)</sup></u>	<u>Debt portion<sup>(2)</sup></u>	<u>BOT agreement counterparty</u>
	(million RMB unless otherwise indicated)		
<i>In operation</i>			
<i>In commercial operation</i>			
<b>Changzhou</b> .....	380.3	157.6	City Management Authority of Wujin District in Changzhou City
<b>Haining</b> .....	192.9	160.0	Haining City Management Authority
<i>In trial operation</i>			
<b>Pingyang</b> .....	226.2	140.0	Municipal government of Pingyang County
<b>Yongjia</b> .....	211.4	150.0	Planning and Construction Bureau of Yongjia County
<b>Rushan</b> .....	232.4	115.9	Urban Construction Bureau of Rushan City
<b>Taizhou</b> .....	422.2	240.0	City Management Authority of Taizhou City
<b>Wuhan</b> .....	383.6	295.0	Construction Committee of Wuhan City
<i>Under development</i>			
<b>Huizhou<sup>(3)</sup></b> .....	554.6	N/A	Huiyang District Sanitation Authority in Huizhou City
<b>Anshun</b> .....	301.6	N/A	Xixiu District Industry Park Management Committee in Anshun City
<b>Jurong</b> .....	248.3	N/A	Jurong City Management Authority
<b>Jixian</b> .....	271.3	N/A	Jixian Municipal Government in Tianjin City
<b>Zhangqiu</b> .....	351.1	205.0	Zhangqiu City Environmental Protection Center
<b>Pingyao</b> .....	269.4	N/A	Pingyao County People's Government
<b>Qingdao</b> .....	267.4	N/A	Qingdao Economic and Technology Development District Management Authority

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<b>BOT Project</b>	<b>Actual/ Estimated investment<sup>(1)</sup></b>	<b>Debt portion<sup>(2)</sup></b>	<b>BOT agreement counterparty</b>
	<b>(million RMB unless otherwise indicated)</b>		
<b>Sheyang<sup>(4)</sup></b> . . . . .	280.0	N/A	Sheyang County Municipal Government
<b>Jintan<sup>(4)</sup></b> . . . . .	290.0	N/A	Jintan City Municipal Authority
<b>Ninghe</b> . . . . .	371.7	N/A	Municipal government of Ninghe County
<b>Hongan<sup>(4)</sup></b> . . . . .	280.0	N/A	Municipal government of Hongan County
<b><i>In preparation<sup>(5)</sup></i></b>			
<b>Chaoyang</b> . . . . .	Investment details have yet to be agreed		Municipal government of Chaoyang District in Shantou City
<b>Tongzhou</b> . . . . .	Investment details have yet to be agreed		Municipal government of Tongzhou District in Beijing City
<b>Lampang City (Thailand)</b> . . . . .	Investment details have yet to be agreed		Municipal government of Lampang City, Thailand
<b>Pahang (Malaysia)</b> . . .	Investment details have yet to be agreed		Total Renewables SDN BHD

(1) For projects in operation, actual investment is reported. For projects under development, estimated total investment is based on our internal estimates as reported to the Board of Directors for each project.

(2) Debt portion represents available bank facilities for the relevant projects in operation.

(3) The Huizhou project commenced construction in late 2013.

(4) Investment details have yet to be decided. See “— Sheyang project”, “— Jintan project” and “— Hongan project”.

(5) Framework agreement signed with further terms to be agreed. The framework agreement is not legally binding.

## Project facilities

Below is a map showing the location of our domestic projects in operation, under development, and in preparation as of the Latest Practicable Date:



### In Operation

#### *In Commercial Operation*

1. Changzhou Project
2. Haining Project

#### *In Trial Operation*

3. Pingyang Project
4. Yongjia Project
5. Rushan Project
6. Taizhou Project
7. Wuhan Project

### Under Development

8. Huizhou Project
9. Anshun Project
10. Jurong Project
11. Jixian Project
12. Zhangqiu Project
13. Qingdao Project
14. Sheyang Project
15. Jintan Project
16. Pingyao Project
17. Ninghe Project
18. Hongan Project
19. Chaoyang Project (In preparation)
20. Tongzhou Project (In preparation)

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The following table summarizes key details of our BOT projects as of the Latest Practicable Date:

Location	Method obtained	Date agreement signed <sup>(3)</sup>	Status	Waste treatment capacity (tons/day)	Installed power generation capacity (MW)	Waste treatment fee (RMB/ton)	Tariff rate (VAT inclusive) (RMB/kWh) <sup>(7)</sup>
<i>In operation<sup>(1)</sup></i>							
<i>In commercial operation</i>							
<b>Changzhou</b> . . .	Public bid	September 20, 2005 (Phase I & II).	Commenced Phase I commercial operation in March 2009. Commenced Phase II commercial operation in July 2012	1,050	16	75	0.66
<b>Haining</b> . . . . .	Agreement <sup>(2)</sup>	April 19, 2006	Commenced commercial operation in July 2010	600	7.5	75	0.66
<i>In trial operation</i>							
<b>Pingyang</b> . . . . .	Agreement <sup>(2)</sup>	September 30, 2009	Commenced trial operation in April 2013	600 <sup>(4)</sup>	12	65	0.55
<b>Yongjia</b> . . . . .	Agreement <sup>(2)</sup>	December 23, 2009	Commenced trial operation in May 2013	500 <sup>(4)</sup>	12	60	0.55
<b>Rushan</b> . . . . .	Public bid	September 29, 2010	Commenced trial operation in July 2013	500	9	52	0.594
<b>Taizhou</b> . . . . .	Public bid	September 16, 2009	Commenced trial operation in August 2013	1,000	18	80	0.65
<b>Wuhan</b> . . . . .	Agreement <sup>(2)</sup>	May 9, 2005	Commenced trial operation in October 2013	1,000	18	68	0.56
<i>Under development</i>							
<b>Huizhou</b> . . . . .	Public bid	November 23, 2012	Began construction in late 2013 <sup>(5)</sup>	1,200		90.77 <sup>(6)</sup>	
<b>Anshun</b> . . . . .	Agreement <sup>(2)</sup>	December 21, 2011	Expected to begin construction in June 2014	700 <sup>(4)</sup>		70	
<b>Jurong</b> . . . . .	Agreement <sup>(2)</sup>	July 4, 2012	Expected to begin construction in July 2014	700 <sup>(4)</sup>		62	
<b>Jixian</b> . . . . .	Agreement <sup>(2)</sup>	March 26, 2013	Expected to begin construction in August 2014	700 <sup>(4)</sup>		60	
<b>Zhangqiu</b> . . . . .	Public bid	February 1, 2012	BOT agreement signed	700 <sup>(4)</sup>		51.5	
<b>Pingyao</b> . . . . .	Agreement <sup>(2)</sup>	September 20, 2012	BOT agreement signed	600		65	
<b>Qingdao</b> . . . . .	Agreement <sup>(2)</sup>	May 18, 2005	BOT agreement signed	600 <sup>(4)</sup>		75	
<b>Sheyang</b> . . . . .	Agreement <sup>(2)</sup>	November 11, 2007	BOT agreement signed	600		50	
<b>Jintan</b> . . . . .	Agreement <sup>(2)</sup>	December 24, 2008	BOT agreement signed	600		75	
<b>Ninghe</b> . . . . .	Agreement <sup>(2)</sup>	September 13, 2013	BOT agreement signed	500		70	
<b>Hongan</b> . . . . .	Agreement <sup>(2)</sup>	December 17, 2013	BOT agreement signed	700			
<i>In Preparation</i>							
<b>Chaoyang</b> . . . . .			Non-legally binding framework agreement signed	1,500			
<b>Tongzhou</b> . . . . .			Non-legally binding framework agreement signed	1,500 <sup>(4)</sup>			
<b>Lampang City (Thailand)</b> . . .			Non-legally binding framework agreement signed				
<b>Pahang (Malaysia)</b> . . .			Non-legally binding framework agreement signed				

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- (1) The Pingyang, Yongjia, Rushan, Taizhou and Wuhan projects were in trial operation and have started the process of environmental protection acceptance for construction project as of the Latest Practicable Date. Trial operations generally are for a period of one year before the project commences regular commercial operation.
- (2) Includes agreements reached through competitive negotiation (unlike a public bidding or tender process which usually requires a public announcement inviting bids from unspecified participants, competitive negotiation are typically conducted among a small group of selected invitees and terms of the contract are determined by negotiation), negotiation and consultation.
- (3) Date reflects the date when our Company entered into the concession agreement with a customer, which in certain cases was superseded by a subsequent agreement entered into by our relevant project company and the customer.
- (4) Separate waste reception requirements are set for phase I and phase II of the project under the BOT agreement; figure represents the phase I requirement. Contracted phase II capacities are 300 tons per day for the Pingyang project, 250 tons per day for the Yongjia project, 350 tons per day for each of the Anshun, Jurong, Jixian and Zhangqiu projects, and 400 tons per day for the Qingdao project. Planned phase II capacity is 500 tons per day for the Tongzhou project. The BOT agreement for the Anshun project also provides for a medium-term expansion of the facility with an additional capacity of 1,000 tons per day above the phase II requirement.
- (5) The landfill portion of the project has commenced construction in late 2013.
- (6) Indicates the treatment fee for waste incineration; the treatment fee for landfill treatment in Huizhou is RMB74 per ton.
- (7) The tariff rates are based on relevant government policies and/or approvals.

### *Projects in operation*

#### *Changzhou project*

##### Overview and facilities

Changzhou Company was established on December 31, 2005 and operates the Changzhou project which is located in the Wujin district of Changzhou, Jiangsu province. The Changzhou project comprises two phases of project construction. The first phase passed final construction inspection in March 2009. The second phase passed final construction inspection in July 2012. The Changzhou project has a waste treatment capacity of 1,050 tons per day and installed power generation capacity of 16 MW. Both phases are currently in commercial operation.

The Changzhou project's facilities are divided into three functional areas, namely the office area, the processing area (including incineration and power generation) and the auxiliary systems area. The processing area comprises waste off-loading, waste storage, waste incineration, flue gas processing and residue processing. The Changzhou project utilizes our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste.

##### Concession agreement

The concessionary period for the Changzhou project is 25 years, expiring on December 30, 2030, at which time the project will be transferred to the local government.

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Under the concession agreement for the Changzhou project, the local administrative authority is required to provide us with no less than 200,000 tons per year of municipal solid waste. The Changzhou project's coverage area for collection of municipal solid waste includes Wujin district, Changzhou city.

The concession agreement for the Changzhou project provides that the waste treatment fee shall be RMB65 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. If the Jiangsu Province Statistical Bureau announces an inflation rate exceeding 3% for any year, the waste treatment fee shall be increased by a rate equal to the rate of inflation plus one percent. Such adjustment shall take effect within 90 days of the announcement by the Jiangsu Province Statistical Bureau. As of the Latest Practicable Date, the adjusted waste treatment fee was RMB75 per ton.

The concession agreement for the Changzhou project stipulates certain circumstances that would constitute breach by either party, along with applicable penalties. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements, in which case the local government authority must pay us the waste treatment fee plus an additional penalty for amount by which they fall below the required minimum; (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy; or (iv) the local government authority fails to pay us the waste treatment fee or electricity tariff according to the agreement, in which case we are entitled to a 5% penalty in addition to immediate payment of the overdue amount. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us, in which case we must pay compensation equivalent to the waste treatment fee for the amount by which we fall below the minimum; (ii) the quarterly thermal burn rate for the project exceeds 5%, in which case we must pay a designated penalty ranging from RMB5,000 to RMB20,000 based on the amount by which the thermal burn rate exceeds 5%; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. If we fail to make timely payment of any penalties under the concession agreement, the local government authority will be entitled to an additional 5% above the original amount.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, the price of the electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities. The current tariff rate for our Changzhou project is RMB0.66 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. The current electricity supply agreement expires on August 31, 2015, and may be renewed upon agreement of the parties.

### Steam and water production

Our Changzhou plant possesses auxiliary facilities capable of providing surrounding enterprises and residential communities with steam. Under the terms of, our concession agreement for the Changzhou project, we

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sell steam to our customers and their designated authorities at a price of no less than RMB120 per ton. We also sell certain by-products generated from operation, such as water, to local customers.

### Key operating statistics

The following table presents the actual amount of waste received and processed, the actual amount of electricity produced and sold, and the annual utilization rates for waste treatment and electricity production at the Changzhou project for the periods indicated:

	Actual			Utilization Rate (%) <sup>(2)</sup>		
	Year ended December 31,			Year ended December 31,		
	2011	2012	2013	2011	2012	2013
<b>Amount of municipal solid waste received</b>						
<b>(approximate tons)</b> .....	446,800	492,500	450,700			
<b>Amount of municipal solid waste treated</b>						
<b>(approximate tons)<sup>(1)</sup></b> .....	340,800	360,800	367,500	88.9	94.1	95.9
<b>Amount of electricity produced (approximate</b>						
<b>MWh)</b> .....	99,500	98,000	104,200	71.0	69.9	74.3
<b>Amount of on-grid electricity (approximate</b>						
<b>MWh)<sup>(3)</sup></b> .....	78,200	74,900	83,200			

(1) Leachate is drained from the waste before incineration. Approximately 90,000 tons of leachate is treated per year at the Changzhou facility.

(2) Utilization rate is calculated by the actual production data divided by the annualized production capacity (365 days).

(3) The difference between the amount of electricity produced and the amount of on-grid electricity is typically the amount of electricity consumed by the facility.

### *Haining project*

#### Overview and facilities

Haining Company, formerly Haining Transocean Environmental and Thermoelectric Company, was established on March 15, 2004. Haining Company is our wholly owned subsidiary for processing municipal solid waste in Haining city, Zhejiang province.

The Haining project has a waste treatment capacity of 600 tons per day and installed power generation capacity of 7.5 MW. The project passed final construction inspection on July 30, 2010. The Haining project is currently in commercial operation.

Haining Company's facilities are divided into an office area and a processing area. The Haining project utilizes domestic third party technologies and the main processing room (including the waste off-loading dock,



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waste storage, furnace room, compressor, flue gas processing area and power generation area) is located at the center of the facility, with a waste water processing station and ash solidifying plant, pumping station and cooling tower and multi-purpose building located at the periphery.

### Concession agreement

The concessionary period for the Haining project is 25 years, expiring on July 31, 2035, at which time the project will be transferred to the local government.

Under the concession agreement for the Haining project, the local administrative authority is required to provide us with no less than 400 tons per day of municipal solid waste. The Haining project's coverage area for collection of municipal solid waste includes Haining city and all counties thereunder.

The concession agreement for the Haining project provides that the waste treatment fee shall be RMB70 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. In case of inflation, insufficient supply of municipal solid waste or any other factor that would lead to an increase in project costs, the parties shall adjust the waste treatment fee through good faith negotiations. As of the Latest Practicable Date, the adjusted waste treatment fee was RMB75 per ton.

The concession agreement for the Haining project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may, upon written notice, demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, the price of the electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities. The current tariff rate for our Haining project is RMB0.66 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. The electricity supply agreement has a term of three years and is automatically renewed for additional three year terms unless the parties object prior to the end of the term.

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### Key operating statistics

The following table presents the actual amount of waste received and processed, the actual amount of electricity produced and sold and the annual utilization rates for waste treatment and electricity production at the Haining facility for the periods indicated:

	Actual			Utilization Rate (%) <sup>(2)</sup>		
	Year ended December 31,			Year ended December 31,		
	2011	2012	2013	2011	2012	2013
<b>Amount of municipal solid waste received</b>						
<b>(approximate tons)</b> .....	190,100	206,500	194,200			
<b>Amount of municipal solid waste treated</b>						
<b>(approximate tons)<sup>(1)</sup></b> .....	176,800	194,100	190,800	80.7	88.6	87.1
<b>Amount of electricity produced (approximate</b>						
<b>MWh)</b> .....	57,500	63,600	62,300	87.5	96.8	94.8
<b>Amount of on-grid electricity (approximate</b>						
<b>MWh)<sup>(3)</sup></b> .....	47,100	51,800	53,300			

(1) Leachate is drained from the waste before incineration. Approximately 20,000 tons of leachate is treated per year at the Haining facility.

(2) Utilization rate is calculated by the actual production data divided by the annualized production capacity (365 days).

(3) The difference between the amount of electricity produced and the amount of on-grid electricity is typically the amount of electricity consumed by the facility.

### *Pingyang project*

#### Overview and project facilities

Pingyang Company was established on April 6, 2010 and operates the Pingyang project which is located in the Pingyang county of Wenzhou city, Zhejiang province. Through our investments in Pingyang Company, we possess concession rights for a WTE plant with waste treatment capacity of 600 tons per day and installed power generation capacity of 12 MW. Construction of the Pingyang project began in November 2010, and the project was put into trial operation in April 2013. The Pingyang project is expected to commence commercial operation in 2014.

The Pingyang project's primary production area uses an integrated design, constructing the steam engine, incinerator and waste storage room together as one complex. The incinerator, waste storage and waste off-loading dock are located on the north side of the facility, well apart from the office building. The primary production area also includes a gas scrubber, internal desulfurization sensor, cloth filter, exhaust chimney, ash solidifier and slag pool. The drainage facilities are located on the east side of the primary production area and include a mechanical draft cooling tower, integrated pump house and circulator, purified water reservoir and water purification plant. The Pingyang project utilizes our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste.

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### Concession agreement

The concessionary period for the Pingyang project is 28 years, expiring on September 30, 2037, at which time the project will be transferred to the local government. Under the concession agreement for the Pingyang project, the local administrative authority is required to provide us with no less than 450 tons per day of municipal solid waste and no less than 162,000 tons of municipal solid waste per year. The Pingyang project's coverage area for collection of municipal solid waste includes Pingyang county, Zhejiang province.

The concession agreement for the Pingyang project provides that the waste treatment fee shall be RMB65 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. If the yearly consumer price index ("CPI") as published by the Zhejiang Province Statistical Bureau shows a significant change such that project costs would be increased, then both parties shall negotiate to adjust the waste treatment fee within 90 days of the CPI index being published.

The concession agreement for the Pingyang project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) it fails to perform its obligations with respect to project construction; (ii) it fails to provide municipal solid waste or fails to pay the waste treatment fee for more than one week; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than 60 days. We are considered to have breached the concession agreement if (i) we fail to provide the performance guarantee or transfer guarantee; (ii) we fail to adhere to the agreed construction timetable for reasons other than action by the local government authority; (iii) we fail to adhere to agreed environmental protection standards for disposal of wastewater, ash and slag, resulting in the waste treatment amount falling below the minimum for more than one week; (iv) due to unplanned downtime, the project ceases operation for more than one week or the waste treatment amount falls below the minimum for more than 10 days; (v) without obtaining written consent from the local government authority, we change key project technology; (vi) without obtaining written consent from the local government authority, we transfer, pledge or otherwise dispose of our concession rights; (vii) the Pingyang Company disposes of its assets in a manner than hinders its performance under the agreement; (viii) any of Pingyang Company's licenses gets revoked; (ix) due to inadequate management, the Pingyang Company suffers a major and irremediable safety, quality control or environmental protection incident; (x) due to inadequate management, the Pingyang Company becomes insolvent or unable to pay its debts, resulting in an inability to perform its obligations under the concession agreement; (xi) the Pingyang Company is dissolved or abandons the project; (xii) our actions lead to termination of the concession agreement, or (xiii) we fail to perform any other obligations under the concession agreement for more than 60 days. The breaching party shall be required to pay the non-breaching party RMB10,000 for each day on which each instance of breach occurs and remains unremedied.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, the price of the electricity sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from

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relevant authorities. The current tariff rate for our Pingyang Company is RMB0.55 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. The electricity supply agreement has a term of three years and is automatically renewed for additional three year terms unless the parties object prior to the end of the term.

### Key operating statistics

For the year ended December 31, 2013, the Pingyang project received approximately 213,500 tons of municipal solid waste, approximately 186,500 tons of which were processed to generate approximately 62,100 MWh of electricity, approximately 52,300 MWh of which was sold on-grid.

### *Yongjia facility*

Yongjia Company was established on February 1, 2010 and operates the Yongjia project which is located in Wenzhou city, Zhejiang province. Under a BOT investment agreement between us and the municipal government of Yongjia county in Wenzhou, we possess concession rights for a WTE plant with a waste treatment capacity of 500 tons per day and an installed power generation capacity of 12 MW. Construction of the Yongjia project began in December 2010, and the project was put into trial operation in May 2013. The Yongjia project is expected to commence commercial operation in 2014.

The facilities of the Yongjia project are divided into three areas, namely the main plant, office and living area and auxiliary processing facilities. The main plant includes the turbine room, incinerator room, flue gas scrubber, waste storage, waste off-loading dock (including a water processing vehicle, warehouse and workshop), central control building and compressor station. The Yongjia project utilizes our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste.

### Concession agreement

The concessionary period for the Yongjia project is 30 years, expiring on May 13, 2040, at which time the project will be transferred to the local government.

Under the concession agreement for the Yongjia project, the local administrative authority is required to provide us with 500 tons of municipal solid waste per day and no less than 182,500 tons of municipal solid waste per year. The Yongjia project's coverage area for collection of municipal solid waste includes Yongjia city, Zhejiang province.

The waste treatment agreement for the Yongjia project provides that the waste treatment fee shall be RMB60 per ton of municipal solid waste. We may request adjustments to the waste treatment fee once within any three year period, provided that we submit such request before November 1 of any given year and the requested increase is greater than 5%. According to the waste treatment agreement, the waste treatment fee may also be adjusted if (i) the CPI in any given year increases by more than 6%, (ii) the on-grid electricity tariff is adjusted, or (iii) the total amount of municipal solid waste provided to the project is less than 120,000 tons per year, or more than 190,000 tons per year and we are able to modify the project facilities to accommodate such increased amount.

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The concession agreement for the Yongjia project stipulates certain circumstances that would constitute breach by either party and specifies applicable penalties. The local government authority is considered to have breached the concession agreement if (i) it fails to perform its obligations with respect to project construction; (ii) it fails to perform any obligation under the concession agreement for more than 60 days; (iii) the amount of municipal solid waste supplied to the project in a given month fluctuates by more than 20% compared required minimum on a yearly basis; or (iv) the local government authority fails to pay the previous quarter's waste treatment fee for more than 30 days, in which case we are entitled to interest on the overdue amount. We are considered to have breached the concession agreement if (i) we fail to adhere to the agreed construction timetable or change key project technology; (ii) without obtaining written consent from the local government authority, we transfer, pledge or otherwise dispose of our concession rights or disposes of our assets in a manner than hinders its performance under the agreement; (iii) we lose our business license; (iv) due to inadequate management, the Yongjia Company suffers a major and irremediable safety, quality control or environmental protection incident; (v) due to inadequate management, the Yongjia Company becomes insolvent or unable to pay its debts, resulting in an inability to perform its obligations under the concession agreement; (vi) the Yongjia Company abandons the project; (vii) our actions lead to termination of the concession agreement, (viii) our yearly waste treatment amounts falls below the minimum, in which case we must pay compensation equivalent to the waste treatment fee for the amount by which we fall below the minimum; (ix) our monthly waste treatment amount falls below 400 tons per day for three consecutive months, in which case we must pay compensation equivalent to an adjusted waste treatment fee for the amount by which we fall below the monthly minimum; (x) the project's thermal burn rate exceeds 5% or the project fails to meet emissions standards; or (xi) our Yongjia project provides waste treatment services to a third party, in which case we must return the local government authority's waste treatment fees for those days on which we were supplying services to third parties.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, following trial operation, the price of the electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities. The current tariff rate for the Yongjia project is RMB0.55 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. The electricity supply agreement has a term of three years and may be renewed upon agreement of the parties.

### Key operating statistics

For the year ended December 31, 2013, the Yongjia facility received approximately 280,400 tons (including approximately 52,700 tons of municipal solid waste received for treatment by local authority's request and for Wenzhou municipality, for which the waste treatment fee was at a premium to the contracted fee of RMB60 per ton) of municipal solid waste, approximately 235,400 tons of which were processed to generate approximately 77,100 MWh of electricity, approximately 62,400 MWh of which was sold on-grid.

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### *Rushan project*

#### Overview and facilities

Rushan Company was established on October 25, 2010 and operates the Rushan project which is located in the Rushan economic development zone of Shandong province. Construction of the project began in March 2012, and the project entered trial operation in July 2013. The Rushan project is expected to commence commercial operation in 2014.

The project consists of dual waste incinerators with waste treatment capacity of 500 tons per day and installed power generation capacity of 9 MW.

The Rushan project's facilities are divided into the front area, the production area and the auxiliary production area. The front area consists of an office building and integrated function building. The production area is situated toward the center of the Rushan facility's land plot and includes the incinerator and power generator, exhaust chimney, approach viaduct, transformer and scale room. The auxiliary production area mainly includes a desalinization plant, cooling tower, waste water processing plant, fuel tank and fuel compressor, ash solidifier workshop and complementary facilities. The Rushan project utilizes our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste.

#### Concession agreement

The concessionary period for the Rushan project is 30 years, expiring on November 22, 2040, at which time the project will be transferred to the local government. Under the concession agreement for the Rushan project, the local administrative authority will be required to provide us with no less than 99,000 tons per year of municipal solid waste initially, progressively increasing to 165,000 tons after five years of operation. The Rushan project's coverage area for collection of municipal solid waste includes Rushan city, Shandong province.

The concession agreement for the Rushan project provides that the waste treatment fee shall be RMB52 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. The waste treatment fee may be adjusted according to a formula based on changes in the yearly CPI as published by the Rushan Municipal Statistical Bureau.

The concession agreement for the Rushan project stipulates certain circumstances that would constitute breach by either party and specifies the applicable penalties. The local government authority is considered to have breached the concession agreement if (i) due to actions of the local government authority, the project fails to begin trial operation or commercial operation as scheduled, in which case the local government authority must pay RMB10,000 for each day of delay if the delay is less than 30 days, RMB20,000 for each day between 30 and 60 days, RMB30,000 for each day between 60 and 90 days, and RMB40,000 per day thereafter; (ii) without force majeure, the amount of municipal solid waste supplied to the project falls below various specified thresholds, in which case the local government authority must pay us the waste treatment fee plus an additional penalty for

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amount by which they fall below the required minimum in addition to any other costs that we incur as a result; (iii) the local government authority fails to pay us the waste treatment fee or electricity tariff according to the agreement, in which case we are entitled to interest on the overdue amount; and (iv) without force majeure, the local power grid company fails or refuses to purchase our electricity, which shall be deemed a breach by the local government authority. We are considered to have breached the concession agreement if (i) due to our actions, the project fails to begin trial operation or commercial operation as scheduled, in which case we must pay RMB10,000 for each day of delay if the delay is less than 30 days, RMB20,000 for each day between 30 and 60 days, RMB30,000 for each day between 60 and 90 days, and RMB40,000 per day thereafter; (ii) the Rushan Company abandons the project, in which case the local government authority is entitled to retain the full amount of the performance guarantee; (iii) without force majeure, our waste treatment amount falls below various specified thresholds, in which case we must pay compensation equivalent to an adjusted waste treatment fee for the amount by which we fall below the monthly minimum plus any other costs incurred by the local government authority as a result; (iv) our waste treatment procedures fail to meet required standards, in which case we must pay compensation equivalent to the waste treatment fee for the amount of waste not treated according to standard; or (v) our Rushan project provides waste treatment services to a third party, in which case the local government authority has the right to withhold waste treatment fees for those days on which we provided services to third parties.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold will be determined according to applicable government regulations. Following trial operation, the price of the electricity to be sold will be RMB0.594 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. According to NDRC policy, the price of the electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities.

### Key operating statistics

For the year ended December 31, 2013, the Rushan facility received approximately 8,300 tons of municipal solid waste, approximately 130 tons of which were processed to generate approximately 2,600 kWh of electricity, of which approximately 1,400 kWh was sold on-grid.

### *Taizhou project*

#### Overview and facilities

Taizhou Company was established on November 2, 2009 and operates the Taizhou project which is located in Taizhou, Jiangsu province. Construction of the Taizhou project began in May 2012, and the project was put into trial operation in August 2013. The Taizhou project is expected to commence commercial operation in 2014. The project is designed to have a waste treatment capacity of 1,000 tons per day, divided between two grate furnace incinerators, each with a waste treatment capacity of 500 tons per day. A single condensed turbine generator provides installed power generation capacity of 18 MW.

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The Taizhou project's facilities include a primary processing building (including a waste off-loading dock, pneumatics room, water processing room, laboratory, control center, equipment repair room, warehouse, waste storage, incinerator room, slag flushing room, fume cleaning room, compressor room, deoxidization room, high voltage transformer room and central control center), rotary water pump and injector, priming reservoir, cooling tower, compressor station, cleaning and pressure pump station, fire control systems, fuel tanks, fuel compressor, truck parking docks, truck washing platform, integrated processing management building and guard post. The Taizhou project will utilize imported grate incinerator technology.

### Concession agreement

The concessionary period for the Taizhou project is 30 years, expiring on April 30, 2042, at which time the project will be transferred to the local government.

Under the concession agreement for the Taizhou project, the local administrative authority will be required to provide us with no less than 266,000 tons per year of municipal solid waste initially, progressively increasing to 350,000 tons per year. The Taizhou project's coverage area for collection of municipal solid waste includes Taizhou city, Jiangsu province.

The concession agreement for the Taizhou project provides that the waste treatment fee shall be RMB55 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. Either party may request adjustments to the waste treatment fee once within any three year period, provided that the request is provided to the other party before November 1 of any given year. The waste treatment fee may also be adjusted if (i) the CPI increases or decreases by more than 6% during any one or two year period in which the project is operational, (ii) the amount of municipal solid waste provided to the project is less than 300,000 tons per year, or more than 370,000 tons per year and we are able to modify the project facilities to accommodate such increased capacity, (iii) the moisture content, calorific value or other specified parameters of the municipal solid waste delivered to the facility deviate beyond a specified range, or (iv) changes in relevant laws and regulations lead to a significant increase in project costs. As at the Latest Practicable Date, the adjusted waste treatment fee was RMB80 per ton of municipal solid waste.

The concession agreement for the Taizhou project stipulates certain circumstances that would constitute breach by either party. The local government authority is considered to have breached the concession agreement if (i) it changes any major aspect of project development that would require us to perform a redesign or change major equipment, in which case we have the right to extend the construction period; (ii) due to actions of the local government authority, the project experiences a work stoppage or other similar event lasting more than 30 consecutive days or in total more than 60 days, in which case we have the right to extend the construction period; or (iii) the local government authority is unable to provide the required amount of municipal solid waste, in which case we have the right to extend the construction period or delay the commencement of commercial operations. If the local government authority fails to remedy any of these breach within 80 days, we have the right to terminate the concession agreement. We are considered to have breached the concession agreement if (i) we experience a construction delay exceeding 40 days; (ii) we experience a construction work stoppage of more than 10 consecutive days or 20 total days; (iii) we change major technologies for the project without



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consulting the local government authority; (iv) without obtaining written consent from the local government authority, we transfer, pledge or otherwise dispose of our concession rights; (v) the Taizhou Company disposes of its assets in a manner than hinders its performance under the agreement; (vi) the Taizhou Company sells any of its licenses; (vii) due to inadequate management, the Taizhou Company suffers a major and irremediable safety, quality control or environmental protection incident; (viii) due to inadequate management, the Taizhou Company becomes insolvent or unable to pay its debts, resulting in an inability to perform its obligations under the concession agreement; (ix) the Taizhou Company is dissolved or abandons the project; (x) our actions lead to termination of the concession agreement; or (xi) we fail to remedy any other breaches under the concession agreement within a reasonable time frame. For any of the above breaches, the breaching party shall pay a penalty of between RMB10,000 and RMB50,000.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, following trial operation, the price of the electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities. The current tariff rate for the Taizhou project is RMB0.65 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis. The current electricity supply agreement expires on October 31, 2018 and may be renewed upon the agreement of the parties.

### Key operating statistics

For the year ended December 31, 2013, the Taizhou facility received approximately 62,300 tons of municipal solid waste, approximately 39,000 tons of which were processed to generate approximately 8,800 MWh of electricity, approximately 7,200 MWh of which was sold on-grid.

### *Wuhan project*

#### Overview and facilities

Wuhan Company was established on September 15, 2006 and operates the Wuhan project which is located in the Qingshan district of Wuhan city, Hubei province. Construction of the Wuhan project began in November 2011, and the project was put into trial operation in October 2013. The Wuhan project is expected to commence commercial operation in 2014. The Wuhan project has a waste treatment capacity of 1,050 tons per day and installed power generation capacity of 18 MW.

The facilities of the Wuhan project are divided into the primary facility, auxiliary sub facilities, transportation facilities and office space. The primary facility comprises the waste off-loading dock, waste storage, incinerator and boiler room, ash collector, gas scrubber, steam engine, central control room, office space and exhaust chimney. Auxiliary sub facilities include a water pump and cooling tower, purified water reservoir, compressor, fuel tank (semi-underground), wastewater management station and solidifier workshop. The

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transportation facilities include a weighing room, scale and trestle. The Wuhan project utilizes our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste.

### Concession agreement

The concessionary period for the Wuhan project is 27 years, expiring on December 31, 2038, at which time the project will be transferred to the local government.

Under the concession agreement for the Wuhan project, the local administrative authority has authorized us to design, construct, operate and maintain a WTE plant with waste treatment capacity of 1,000 tons per day and 355,400 tons per year. The local administrative authority also agreed to consider granting us a priority to process any additional municipal solid waste from the coverage area if we have capacity process more. The Wuhan project's coverage area for collection of municipal solid waste includes Qingshan district, Wuhan city and other surrounding districts.

As of the Latest Practicable Date, the waste treatment fee for the Wuhan project was RMB68 per ton of municipal solid waste.

The concession agreement for the Wuhan project stipulates certain circumstances that would constitute breach by either party and specifies the applicable penalties. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) the local government authority fails to perform any obligations under the concession agreement without providing justification or remedy; (iii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements, in which case the local government authority must pay us an increased waste treatment fee for amount by which they fall below the required minimum; or (iv) the local government authority fails to pay us the waste treatment fee or electricity tariff according to the agreement, in which case we are entitled to interest on the overdue amount. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us, in which case we must pay compensation equivalent to an increased waste treatment fee for the amount by which we fall below the minimum; (ii) the quarterly thermal burn rate for the project exceeds 5%, in which case we must pay a designated penalty based on the amount by which the thermal burn rate exceeds 5%; or (iii) we fail to perform any obligation under the concession agreement without providing justification or remedy. If after receiving written notice of breach, the breaching party fails to remedy within 45 days, the non-breaching party has the right to terminate the concession agreement and the breaching party shall be liable for all resulting damages.

### Electricity supply agreement

The electricity supply agreement provides that the price for electricity sold shall be determined according to applicable government regulations. According to NDRC policy, following trial operation, the price of the

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electricity to be sold will be RMB0.65 per kWh of electricity (inclusive of VAT), subject to certain conditions and receiving approvals from relevant authorities. The current tariff rate for the Wuhan project is RMB0.56 per kWh of electricity (inclusive of VAT). Payment is settled on a monthly basis.

### Key operating statistics

For the year ended December 31, 2013, the Wuhan facility received approximately 199,200 tons of municipal solid waste, approximately 148,200 tons of which were processed to generate approximately 49,900 MWh of electricity, approximately 40,700 MWh of which was sold on-grid.

### *Projects under development*

#### *Huizhou project*

Construction of auxiliary facilities and landfill for the Huizhou project began in late 2013 and has substantially completed in April 2014. Upon completion of construction for the entire project, the Huizhou project is targeted to commence trial operation in March 2016 and enter commercial operation in March 2017. The project is located in Huizhou city, Guangdong province. Our estimated total investment in the Huizhou project is RMB554.6 million, of which approximately 70% is expected to be funded by bank borrowings, which may include our ADB credit facility. As of the Latest Practicable Date, the Huizhou Company has obtained credit facilities of RMB60 million for the Huizhou project, which is guaranteed by our Group. As of March 31, 2014, we incurred an accumulated BOT construction cost of RMB35.4 million for the Huizhou project.

### Concession agreement

We entered into the concession agreement for the Huizhou project with Huiyang District Sanitation Authority in Huizhou City on November 23, 2012. Pursuant to the agreement, we will invest, finance, construct, operate, maintain and subsequently transfer one municipal solid waste landfill, one ash landfill and one WTE plant with accompanying auxiliary facilities (under a BT model). The concessionary period for the Huizhou project is 30 years, expiring on January 23, 2043, at which time the project will be transferred to the local government.

The Huizhou project's coverage area for collection of municipal solid waste will include the Huiyang district in Huizhou city. The initial capacity of the municipal solid waste landfill is expected to be 450 tons per day and the initial waste treatment capacity of the WTE plant is expected to be 800 tons per day.

According to the concession agreement, the waste processing fee for the Huizhou project will be RMB74 per ton for landfill processing and RMB90.77 per ton for incineration. We may request adjustments to the waste processing fee if the CPI and producer price index ("PPI") as published by the Guangdong Province Statistical Bureau register an average increase or decrease of more than 5% in any given year. The relevant local authorities may then agree to adjust the waste processing fee accordingly.

The concession agreement for the Huizhou project provides that either party shall be entitled to compensation for losses resulting from breach by the other party.

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### *Anshun project*

The Anshun project is expected to begin construction in June 2014 and construction of the entire project is expected to be completed in October 2015. Upon completion of construction, the Anshun project is targeted to commence trial operation in October 2015 and enter commercial operation in October 2016. The facility is located in Anshun city, Guizhou province. The Anshun project will utilize our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste. We will also construct auxiliary facilities around the Anshun project, including the access road and utilities infrastructure, under a separate BT arrangement. Our estimated total investment in the Anshun project is RMB301.6 million, which we plan to finance through internal resources and other bank borrowings. As of the Latest Practicable Date, we were in discussions with financial institutions regarding bank borrowing arrangements and we incurred certain capital expenditure for the Anshun project for preparation work.

### Concession agreement

We entered into the concession agreement for the Anshun project with Xixiu District Industry Park Management Committee in Anshun city on December 21, 2011. The concessionary period for the Anshun project is 30 years, commencing on the date that the WTE plant commences operation. Upon expiration of the concessionary period, the project will be transferred to the local government.

Under the concession agreement for the Anshun project, the local administrative authority will be required to provide us with no less than 4,500 tons of municipal solid waste every three months initially, increasing to 6,300 tons every three months after the first three years of commercial operation. The Anshun project's coverage area for collection of municipal solid waste includes the Xixiu district in Anshun city.

The concession agreement for the Anshun project provides that the waste treatment fee shall be RMB70 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. According to the concession agreement, the parties may agree to adjust the waste treatment fee if (i) changes in relevant laws or regulations lead to increased investment requirements or operating expenses for the project, (ii) an evaluation conducted after the first year of trial operation for the project indicates that an adjustment is warranted, (iii) an adjustment would be necessary to maintain a specified rate of return on the project, or (iv) the CPI and PPI as published by the Guizhou Province Statistical Bureau register an average increase or decrease of more than 3% in any given year after the project enters operation.

The concession agreement for the Anshun project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force

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majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may, upon written notice, demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Jurong project*

The Jurong project is expected to begin construction in July 2014 and construction of the entire project is expected to be completed in late 2015. Upon completion of construction, the Jurong project is targeted to commence trial operation in late 2015 and enter commercial operation in early 2017. The project will be located in Shishi township of Jurong city, Jiangsu province. The Jurong project will utilize our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste. Our estimated total investment in the Jurong project is RMB248.3 million, which we plan to finance through internal resources and bank borrowings, which may include our ADB credit facility. As of the Latest Practicable Date, we were in discussions with financial institutions regarding bank borrowing arrangements and incurred minimal expenditures for the Jurong project.

### Concession agreement

We entered into the concession agreement with the Jurong City Management Authority on July 4, 2012. The concessionary period for the Jurong project is 30 years, commencing when the WTE plant begins commercial operations. Upon expiration of the concessionary period, the project will be transferred to the local government.

Under the concession agreement for the Jurong project, the project will have a waste treatment capacity of 1,050 tons per day and 383,000 tons per year. The project plan is currently subject to approval from relevant government authorities.

The concession agreement for the Jurong project provides that the waste treatment fee shall be RMB62 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. The waste treatment fee may be adjusted according to a specified formula if there are changes in the on-grid electricity tariff applicable to the project, or if the CPI as published by the Zhenjiang Municipal Statistical Bureau registers an increase or decrease of more than 5% during any year in which the project is operational.

The concession agreement for the Jurong project stipulates certain circumstances that would constitute breach by either party, thereby entitling the other party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid

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waste supplied to the project does not conform to the agreed requirements; (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy; or (iv) the local government authority cancels our concession rights or transfers the concession rights to a third party in violation of the concession agreement. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may, upon written notice, demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Jixian project*

The Jixian project is expected to begin construction in August 2014 and construction of the entire project is expected to be completed in February 2016. Upon completion of construction, the Jixian project is targeted to commence trial operation in February 2016 and enter commercial operation in February 2017. The project will be located in Jixian county, Tianjin city. The Jixian project will utilize our proprietary multiple drive expeller grate waste incineration technology. Our estimated total investment in the Jixian project is RMB271.3 million, which we plan to finance through internal resources and bank borrowings, which may include our ADB credit facility. As of the Latest Practicable Date, we were in discussions with financial institutions regarding bank borrowing arrangements and incurred minimal expenditure for the Jixian project.

### Concession agreement

We entered into the concession agreement with Jixian Municipal Government in Tianjin city on March 26, 2013. The concessionary period for the Jixian project is 30 years, commencing when the WTE plant enters commercial operation. Upon expiration of the concessionary period, the project will be transferred to the local government.

Under the concession agreement for the Jixian project, the local administrative authority will be required to provide us with no less than 199,800 tons of municipal solid waste per year and we must maintain waste treatment capacity of no less than 600 tons per day and 199,800 tons per year. The Jixian project's coverage area for collection of municipal solid waste includes Jixian county, Tianjin city.

The concession agreement for the Jixian project provides that the waste treatment fee shall be RMB60 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. The parties may agree to adjust the waste treatment fee if (i) changes in relevant laws or regulations lead to increased investment requirements or operating expenses for the project, or (ii) the CPI and PPI as published by the Tianjin Municipal Statistical Bureau register an average increase or decrease of more than 3% in any given year after the project enters operation.

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The concession agreement for the Jixian project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may upon written notice demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Zhangqiu project*

The Zhangqiu project is expected to begin construction in 2015. The construction period is estimated to be 18 months, after which the project will enter trial operation. Commercial operation typically begins one year after commencing trial operation. The project will be located in Zhangqiu city, Shandong province. The Zhangqiu project will utilize our proprietary multiple drive expeller grate waste incinerator technology for incineration of waste. As of the Latest Practicable Date, we incurred minimal expenditure for the Zhangqiu project.

### Concession agreement

We entered into the concession agreement for the Zhangqiu project with the Zhangqiu City Environmental Protection Center on February 1, 2012. The concessionary period for the Zhangqiu project is 30 years, expiring on March 5, 2042, at which time the project will be transferred to the local government.

Under the concession agreement for the Zhangqiu project, the local administrative authority will be required to provide us with between 166,500 and 233,000 tons of municipal solid waste per year. If the actual supply of municipal solid waste is less than 166,500 tons or exceeds 233,000 tons by more than 2%, the amount of municipal solid waste to be provided and the waste treatment fees will be further negotiated between the parties. The Zhangqiu project's coverage area for collection of municipal solid waste includes Zhangqiu city.

The concession agreement for the Zhangqiu project provides that the waste treatment fee shall be RMB51.5 per ton of municipal solid waste. The waste treatment fee may be adjusted if (i) the CPI as published by the Zhangqiu Municipal Statistical Bureau registers a significant increase or decrease in any three year period after the project enters operation, (ii) the on-grid electricity tariff applicable to the project is adjusted, or (iii) changes in relevant laws or regulations lead to increased investment requirements or operating expenses for the project.

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The concession agreement for the Zhangqiu project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) it changes any major aspect of project development that would require us to perform a redesign or change major equipment, in which case we have the right to extend the construction period and concession period; (ii) construction work is delayed due the local government authority's failure to supply power, water or road access to the construction site, in which case we have the right to extend the construction period; (iii) the local government authority is unable to provide the required amount of municipal solid waste, in which case we have the right to extend the construction period or delay the commencement of commercial operations; or (iv) the local government authority fails to supply the required amount of municipal solid waste or fails to pay the waste treatment fee. We are considered to have breached the concession agreement if (i) without consulting the local government authority, we change major project technologies; (ii) we fail to commence construction on the agreed date, in which case we must pay RMB20,000 for each day delayed; (iii) we abandon construction of the project, in which case the local government authority has the right to retain the performance guarantee; (iv) project construction is unsuccessful, in which case the local government authority has the right to retain the performance guarantee; (v) we fail to process the required amount of municipal solid waste; (vi) we transfer, pledge or otherwise dispose of our concession rights; or (vii) we fail to perform any other obligation under the concession agreement for more than 15 days after receiving notice of such breach. We have the right to terminate the concession agreement if the local government authority without justification fails to pay the waste treatment fee for more than 6 months.

### *Pingyao project*

The Pingyao project is expected to begin construction by the end of 2015. The construction period is estimated to be 18 months, after which the project will enter trial operation. Commercial operation typically begins one year after commencing trial operation. The project will be located in Pingyao city, Shanxi province. As of the Latest Practicable Date, we incurred minimal expenditure for our Pingyao project.

### Concession agreement

We entered into the concessionary agreement for the Pingyao project with the Pingyao County People's Government on September 20, 2012. The concessionary period for the Pingyao project is 30 years, commencing on the date that the WTE plant commences operation. Upon expiration of the concessionary period, the project will be transferred to the local government.

Under the concession agreement for the Pingyao project, the local administrative authority will be required to provide us with no less than 500 tons per day and 166,500 tons per year of municipal solid waste. The Pingyao project's coverage area for collection of municipal solid waste includes Pingyao county.

The concession agreement for the Pingyao project provides that the waste treatment fee shall be RMB65 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. The parties may agree to adjust the waste treatment fee if (i) changes in relevant laws or regulations lead to increased investment requirements or operating expenses for the project or (ii) the CPI and PPI as published by the Shanxi



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Province Statistical Bureau register an average increase or decrease of more than 3% in any given year after the project enters operation.

The concession agreement for the Pingyao project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government authority and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may upon written notice demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Ninghe project*

The Ninghe project is expected to begin construction in 2015. The construction period is estimated to be 18 months, after which the project will enter trial operation. Commercial operation typically begins one year after commencing trial operation. The project will be located in Ninghe county, Tianjin city. The Ninghe project will utilize our proprietary multiple drive expeller grate waste incinerator technology. As of the Latest Practicable Date, we incurred minimal expenditure for the Ninghe project.

### Concession agreement

We entered into the concession agreement for the Ninghe project with Ninghe County Municipal Government in Tianjin city on September 13, 2013. The concessionary period for the Ninghe project is 30 years, commencing on the date that the WTE plant commences commercial operation. Upon the expiration of the concessionary period, the project will be transferred to the local government.

Under the concession agreement for the Ninghe project, the local administrative authority will be required to provide us with no less than 109,500 tons of municipal solid waste per year, progressively increasing to 182,500 tons of municipal solid waste after seven years of operation. The WTE facility will have a waste treatment capacity of 500 tons per day of municipal solid waste and 700 tons per day of straw. The Ninghe project's coverage area for collection of municipal solid waste includes Ninghe county, Tianjin city.

The concession agreement for the Ninghe project provides that the waste treatment fee shall be RMB70 per ton of municipal solid waste, subject to adjustment according to the prevailing market price. The waste treatment

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fee may be adjusted according to specified changes in the CPI and PPI as published by the Tianjin Municipal Statistical Bureau and such adjustments shall be made within 90 days of the relevant indices being published.

The concession agreement for the Ninghe project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (ii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may, upon written notice, demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Qingdao project*

Shortly after the Qingdao project commenced construction in the early 2011, we received a request from the customer to select a different site for the project. The customer has agreed to compensate us for expenses incurred during the preliminary construction phase. However, in an abundance of caution, we have also made full provisions for these expenses in our accounts. As we need to reselect a site for the project, the Qingdao project is currently in the preparatory phase and no construction commencement date has been set.

The concession period for the Qingdao project is 27 years from the project company's date of incorporation. However, we plan to re-negotiate the relevant provisions of the BOT agreement to ensure that our estimated return on the project is not significantly impacted by the delay.

### Concession agreement

We entered into the concession agreement for the Qingdao project with the Qingdao Economic and Technology Development District Management Authority on May 18, 2005. The concessionary period for the Qingdao project is 27 years. The Qingdao project will utilize our proprietary multiple drive expeller grate waste incinerator technology for incineration.

Under the concession agreement for the Qingdao project, we will construct a WTE plant with waste treatment capacity of 600 tons per day. The Qingdao project's coverage area for collection of municipal solid waste includes the Qingdao Economic and Technology Development district.

The concession agreement for the Qingdao project provides that the waste treatment fee shall be RMB75 per ton of municipal solid waste. Where the average amount of municipal solid waste treated in a given month is

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less than 600 tons per day, the waste treatment fee shall be calculated on the basis of 600 tons per day at the rate of RMB75 per ton. Both parties may agree to adjust the waste treatment fee if there is a significant increase or decrease in the operational expenses or income of the project.

The concession agreement for the Qingdao project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government authority, the construction completion date is delayed, in which case the local government authority must pay us an amount equal to 0.03% of the total investment amount for each day of delay; (ii) the local government authority fails to make required payments for more than 30 days, in which case we are entitled to an additional 5% on the past due amount. We are considered to have breached the concession agreement if (i) the construction commencement date is delayed by more than 90 days; (ii) the project fails to meet industry standards or design specifications, resulting in the project being unable to pass the final construction certification; or (iii) due to our actions, the project ceases operation for 10 consecutive days or 60 total days, resulting in the waste treatment minimum amount not being met. The local government authority has the right to terminate the concession agreement if (i) we transfer or sell our concession rights; (ii) the Qingdao Company sells, pledges or otherwise disposes of all of its assets; (iii) the Qingdao Company dissolves; or (iv) we take actions that violate relevant laws and regulations.

### *Sheyang project*

We entered into the concession agreement for the Sheyang project with the Sheyang County Municipal Government on November 11, 2007. Pursuant to the concession agreement, we will construct a municipal solid waste treatment co-generation facility with waste treatment capacity of 600 tons per day and 200,000 tons per year. Sheyang County Municipal Government has requested that we delay the commencement of construction due to an insufficient supply of municipal solid waste in the collection coverage area. We will commence construction as soon as the amount of municipal solid waste in the collection coverage area is deemed sufficient. The Sheyang project will utilize our proprietary multiple drive expeller grate waste incinerator technology. As of the Latest Practicable Date, we have incurred minimal expenditure for our Sheyang project.

The concession period for our Sheyang project is 30 years from the effective date of the BOT agreement (i.e. November 11, 2007). However, since the project is delayed, we have not yet established a project company for the Sheyang project. Once the amount of municipal solid waste in the collection coverage area is deemed sufficient to commence construction on the project, we will establish the project company, which will enter into a new BOT agreement with the municipal authorities for the Sheyang project. At that stage, we plan to re-negotiate the date on which the concession period begins to ensure that our estimated return on the project is not significantly impacted.

### Concession agreement

The current concessionary period for the Sheyang project is 30 years, expiring on November 11, 2037, at which time the project will be transferred to the local government.

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Under the concession agreement for the Sheyang project, the local administrative authority will be required to provide us with no less than 5,000 tons of municipal solid waste every three months initially, increasing to 5,500 tons of municipal solid waste every three months after the first three years of commercial operation. If there is insufficient municipal solid waste, the customer will assist us in purchasing straw, an alternative fuel source for power generation.

The concession agreement for the Sheyang project provides that the waste treatment fee shall be RMB70 per ton of municipal solid waste. If we are able to provide electricity and heat co-generation, the waste treatment fee shall be RMB50 per ton provided that the sales price of steam shall be no less than RMB110 per ton. The waste treatment fee may be adjusted according to specified changes in the CPI as published by the Jiangsu Province Statistical Bureau and such adjustments shall be made within 90 days of the relevant indices being published.

The concession agreement for the Sheyang project stipulates certain circumstances that would constitute breach by either party and specifies the applicable penalties. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements, in which case the local government authority must pay us the waste treatment fee plus an additional penalty for amount by which they fall below the required minimum; (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy; or (iv) the local government authority fails to pay us the waste treatment fee or electricity tariff according to the agreement, in which case we are entitled to a 5% penalty in addition to immediate payment of the overdue amount. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; or (ii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. If we fail to make timely payment of any penalties under the concession agreement, the local government authority will be entitled to an additional 5% above the original amount.

### *Jintan project*

We entered into the concession agreement for the Jintan project with the Jintan City Municipal Authority on December 24, 2008. The concession agreement provided for the construction of a WTE facility with a waste treatment capacity of 600 tons per day and 220,000 tons per year. Due to insufficient supply of municipal solid waste in the collection coverage area, we signed a waste treatment services agreement with the Jintan City Municipal Authority and the Wujin District Municipal Authority in Changzhou city in December 2008. Pursuant to the waste treatment services agreement, municipal solid waste will be transported from Jintan city to our WTE facility in Changzhou for incineration. Under the requirements of the contract, the amount of municipal solid waste to be transported will not exceed 350 tons per day and the Jintan local authorities will pay us for processing such waste according to the waste treatment fee stipulated in the concession agreement for the Jintan project. We will commence construction of the Jintan project as soon as the amount of municipal solid waste in

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the collection coverage area is deemed sufficient. As of the Latest Practicable Date, we incurred minimal expenditure for our Jintan project.

The concession period for the Jintan project is 25 years from the project company's date of incorporation. We have not yet established a project company for the Jintan project and do not plan to do so until the amount of municipal solid waste in the collection coverage area is deemed sufficient to commence construction. The project company, once established, will enter into a new BOT agreement with the municipal authorities and we plan to re-negotiate the agreement terms to ensure the estimated rate of return on the Jintan project is not significantly impacted by the delay. In addition, our existing BOT agreement with the municipal authorities for the Jintan project allows for adjustments to the waste treatment fee based on inflation. See “— Concession agreement” below for further details”. For the foregoing reasons and as we are currently treating municipal solid waste from Jintan city at our Changzhou facility, we do not believe the delay at our Jintan project will affect our estimated return on the project.

### Concession agreement

The concessionary period for the Jintan project is 25 years, commencing from the project company's date of incorporation. Under the concession agreement for the Jintan project, the local administrative authority will be required to provide us with no less than 200,000 tons of municipal solid waste per year. The Jintan project's coverage area for collection of municipal solid waste includes Jintan city.

The concession agreement for the Jintan project provides that the waste treatment fee shall be RMB75 per ton of municipal solid waste. The waste treatment fee may be adjusted (i) according to specified changes in the CPI as published by the Jiangsu Province Statistical Bureau, with such adjustments shall be made within 90 days of the relevant indices being published, or (ii) if a change in relevant laws or regulations leads to a significant change in project operating costs.

The concession agreement for the Jintan project stipulates certain circumstances that would constitute breach by either party and specifies the applicable penalties. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements, in which case the local government authority must pay us the waste treatment fee plus an additional penalty for amount by which they fall below the required minimum; (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy; or (iv) the local government authority fails to pay us the waste treatment fee or electricity tariff according to the agreement, in which case we are entitled to a 5% penalty per day in addition to immediate payment of the overdue amount. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the quarterly thermal burn rate for the project exceeds 5% or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. If we fail to

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make timely payment of any penalties under the concession agreement, the local government authority will be entitled to an additional 5% per day above the original amount.

### *Hongan project*

On December 17, 2013, we entered into concession agreement for the Hongan project with the municipal government of Hongan County of Hubei Province to construct a WTE facility with a waste treatment capacity of 700 tons per day. Construction is expected to begin in 2015. As of the Latest Practicable Date, we incurred minimal expenditures for the Hongan project.

### Concession agreement

The concessionary period for the Hongan project is 30 years from the commencement of operations, after which time the project will be transferred to the local government. Under the concession agreement, the local administrative authority will be required to provide us with no less than 182,500 tons per year of municipal solid waste.

The concession agreement for the Hongan project provides that the waste treatment fee shall be RMB55 per ton of municipal solid waste, subject to adjustment for inflation and changes in market rates. The parties may agree to adjust the waste treatment fee if (i) changes in relevant laws or regulations lead to a significant increase in investment requirements or operating costs for the project or (ii) the yearly CPI or PPI as published by the Hongan District Statistical Bureau register an increase or decrease of more than 3%, and such adjustment shall occur within 90 days of the relevant indices being published.

The concession agreement for the Hongan project stipulates certain circumstances that would constitute breach by either party, thereby entitling the non-breaching party to compensation. The local government authority is considered to have breached the concession agreement if (i) due to actions by the local government and without fault on our part, the project loses or experiences material changes to any necessary licences, permits or approvals which it had already obtained; (ii) without force majeure, the quality or amount of municipal solid waste supplied to the project does not conform to the agreed requirements; or (iii) the local government authority fails to perform any obligation under the concession agreement for more than three months without providing justification or remedy. We are considered to have breached the concession agreement if (i) without force majeure, we are unable to treat the municipal solid waste supplied to us; (ii) the project fails to meet agreed environmental protections and emission control standards; or (iii) we fail to perform any obligation under the concession agreement for more than three months without providing justification or remedy. The non-breaching party may, upon written notice, demand that the breaching party remedy its breach within 90 days, failing which the non-breaching party has the right to terminate the concession agreement and the breaching party will bear responsibility for all resulting economic losses.

### *Chaoyang project*

In September 16, 2013, we signed a non-legally binding framework agreement with the municipal government of Chaoyang District of Shantou City for the construction of a WTE facility with a waste treatment

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capacity of 1,500 tons per day. The construction will be divided into two phases. Under the framework agreement, we are required to enter into a concession agreement with the local government as soon as possible. Further details of the scale and other terms and conditions of the project will be negotiated and set forth in the concession agreement.

### *Tongzhou project*

On December 25, 2013, we signed a non-legally binding framework agreement for the Tongzhou project with the municipal government of Tongzhou District of Beijing City, with the intent to construct a WTE facility with a waste treatment capacity of 2,000 tons per day divided into two phases, with the first phase including capacity of 1,500 tons per day. Under the framework agreement, a working group has been established to decide further details of the project and conclude a BOT agreement.

### *Lampang City (Thailand)*

In May 2011, we signed a non-legally binding framework agreement with the municipal government of Lampang City, Thailand, with the intent to construct a WTE facility with a waste treatment capacity of between 600 and 1,000 tons per day. The agreement will become effective upon the approval by both parties of a feasibility report. Following a feasibility study, we will agree further details of the project with the local municipal authorities.

### *Pahang (Malaysia)*

In December 2013, we signed a non-legally binding framework cooperation agreement with a company in Malaysia with an intent to construct a pilot WTE facility in the state of Pahang with a capacity of approximately 600 tons per day. Under the terms of the agreement, we are to be responsible for the engineering, design, procurement, construction, management and operation of the facility, which will use our proprietary multiple drive expeller grated waste incinerator technology.

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

We source various materials, equipment and construction services for the operation and construction of our projects from our contractors and suppliers in the PRC.

### **Project Operation**

Raw materials account for a minimal amount of our costs for our project operation service.

### *Municipal solid waste*

Our principal source of raw materials for the operation of our WTE projects is municipal solid waste, which is generally supplied by the local administrative authorities pursuant to the various concession agreements

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or waste supply agreements. Pursuant to such agreements, the local administrative authorities are required to provide us with a minimum amount of municipal solid waste for our operations. As we are being paid a fee for handling and treating the waste, we do not have to expend any money to purchase the municipal solid waste.

### *Fuel and other consumables*

To initiate combustion, we may use diesel fuel, natural gas or wood. Once initiated, the incineration process is generally self-sustaining, requiring no additional fuel. We also use cloth, limestone, concrete and active carbon as part of our consumables. Fuel and other consumables account for a relatively small portion of our direct costs and operating expenses.

### **Project Construction**

Raw materials and procurement costs for our project construction service primarily include equipment purchasing costs, construction service costs and equipment installation costs. We generally enter into agreements with independent contractors which provide construction services for each of our WTE facilities. Generally, our construction contracts require our contractors to supply basic construction materials, including steel and cement, and to bear the risk of any increase in raw material prices.

### *Equipment and components*

We procure equipment and components such as turbines, exhaust vents, flue gas cleaning devices and air convey systems for installation in the WTE plants. In addition, we outsource the manufacture of incinerators which use our proprietary technologies. In managing and appraising our suppliers who are independent third parties, we focus on a number of factors including product quality, timing of delivery and price competitiveness. We also maintain lists of qualified suppliers which are evaluated and revised from time to time.

### *Construction and Subcontracting*

We generally engage independent third party construction and installation service providers to undertake the construction of our projects, which typically requires 15 to 20 months. We typically engage these contractors through a tender process and adhere to strict selection standards, awarding contracts based on the candidate's qualifications, track record and proposed contract price. Our standard construction contractor agreements typically provide for a fixed price and include a construction schedule based on the construction schedule set out in our master agreement with our customer. As the contract price is fixed, the contractors typically bear the risk of fluctuations in the prices of raw materials used during construction. We usually make progress payments at various stages of completion based on the construction schedule set out in the contract and retain 5% to 10% of the total contract value until the expiry of the warranty period. The contractor is generally required to complete construction drawing and design and provide construction services within the timeline indicated by the relevant agreement. In the event of an accident as a result of inadequate safety measures by the contractor, the contractor will bear any damages or losses arising from such incident.



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If the contractor is unable to complete the construction within the timelines agreed by both parties or if the quality of the construction does not meet the standards as agreed, the contractor is considered to have breached the agreement. In some circumstances we will be entitled to terminate the agreement and claim for compensation for our economic loss.

In selecting third party contractors, we consider a number of factors, including the following:

- the contractor must possess the requisite managerial capability, qualification for construction of the project as well as the requisite construction technologies;
- the contractor must have satisfactory past performance and experience in project construction;
- the contractor must have the financial strength to engage in such project; and
- the prices and quality of services to be provided by the contractor.

Our main suppliers are the third party contractors engaged to provide construction and installation services for our projects. For the years ended December 31, 2011, 2012 and 2013, purchases from our largest supplier accounted for 22.6%, 12.0% and 7.8%, respectively, of our total purchases. For the same periods, purchases from our five largest suppliers in aggregate accounted for 45.2%, 39.0% and 26.5%, respectively, of our total purchases. As at December 31, 2013, the length of our relationships with our five largest suppliers ranges from approximately 21 months to 63 months. Our large suppliers are mostly based in the Yangtze River Delta, including a large SOE in Zhejiang, and are located in close proximity to our facilities under development or in operation. With expansion of our business through new projects in other areas, we expect to source our raw materials from an increasing number of local suppliers. None of our Directors, their 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 these five largest suppliers during the Track Record Period.

### **Inventories**

Inventories primarily comprise parts for our equipment. The balances of our inventories account for a relatively small portion of our current assets and the inventory turnover ratio is relatively high. Through effective inventory management, we maintain the lowest inventory level required for our operations. Please see the section headed “Financial Information — Certain Selected Balance Sheet Items — Inventories” in this Prospectus.

## **SALES AND MARKETING**

### **Project Selection**

We obtain our new projects either through participation in a formal public bidding process or by negotiating and entering into an agreement with our customer. Our sales and marketing team sources potential BOT projects from a wide range of channels, including local news, information from local governments and new

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industry developments. Prospective projects are also screened using a set of market driven and return focused criteria. To safeguard our investment and mitigate the risks involved in BOT projects, we pay special attention to the following factors:

- We give consideration to the local economic conditions, level of development, growth prospects and the credit risks of the local government. We also consider the attitude of the local government toward environmental protection, the relevant regulations and policies in connection therewith and the market potential in surrounding areas. Generally, we focus on selecting projects located in small and mid-sized cities with a population in the range of 400,000 to 1,200,000 inhabitants.
- Before tendering for a BOT project, we assess the availability and terms of the financing for the project. The availability of financing on commercially acceptable terms is an important factor in our assessment of a potential BOT project. The contractual terms of such funding are usually similar to normal bank borrowings, but our project loans generally have a longer repayment period, usually lasting approximately ten years.
- We look carefully at the technical requirements, the estimated investment amount, the tariff rate and the concession term of the project to assess the expected profitability of the project. We only tender for projects which, based on our assessment, will meet our internal profitability requirements of approximately 8-10% rate of return.

Due to the substantial capital investment required, we have a stringent selection process for BOT projects. We carry out a detailed risk-benefit analysis of the prospective BOT project. If we are satisfied with the result of the evaluation, we will prepare relevant tender documents for submission or begin the negotiation process for a private agreement with the local government authorities.

### **Tender Process**

The presales phase starts with an application for a project through a tender process (both public tender and tender by invitation). Information on tenders is generally available via tender notices in newspapers, industrial publications, announcements issued by government authorities or by invitation. After the start of the tender process, there is usually a period within which to pose questions about the tender documents and the final proposal for the tender usually has to be submitted within one month. Prior to submission of the final proposal, we will establish a tender team to prepare documents in accordance with requirements specified by the issuer of the tender, undertake an assessment of the waste parameters, analyze the heat value and optimal positioning for the site and submit a competitive bid for the tender.

Once we are awarded the tender, we enter into a concession agreement with the municipal government. Subsequently, we start detailed planning and designing the incinerator in accordance with the requirements set out in the concession agreement (e.g. maximum waste treatment capacity of the incinerator and incineration technique to be used, including generation of by-products). Accordingly, we need to conduct an on-site

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inspection and prepare site surveys and studies. Designs and specifications will be checked and approved internally before submission to the respective customer for confirmation. These documents serve as a basis for the detailed design drawings that are prepared by us.

For those projects that do not involve a tender process, the presales phase begins when we are contacted directly by a customer interested in placing an order. A customer may invite several WTE companies to negotiate for the contract for its project. Waste treatment is considered a municipal public utility in the PRC. Consequently, the Measures for the Administration on the Concession of Municipal Public Utilities (Order of the Ministry of Construction No. 126) promulgated by the former Ministry of Construction of the People's Republic of China on March 19, 2004 and implemented on May 1, 2004 (the “**Concession Measures**”) require municipal public utility authorities that implement a concession system for waste treatment facilities to select the concessionaire through a tender process. In respect of 13 of our 18 BOT projects in the PRC (excluding the two projects for which we have entered into non-legally binding framework agreements) including four projects in commercial operation or trial operation (located in Haining, Pingyang, Yongjia and Wuhan) and nine projects under development (located in Anshun, Jurong, Jixian, Pingyao, Qingdao, Sheyang, Jintan, Ninghe and Hongan), the relevant municipal public utility authorities did not grant our concession through a tender process consistent with that required under the Concession Measures. As the Concession Measures do not specify any penalties for the foregoing non-compliance of our customers, the legal implications and the potential liabilities for the foregoing non-compliance with the Concession Measures for our customers are uncertain. Furthermore, as the Concession Measures are departmental rules under which the implementation of a concession system to select the concessionaire for waste treatment facilities through a tender process is a requirement for municipal governments and municipal governments dictate the tendering or negotiation procedures, the legal implications and potential liabilities for us are unclear when the relevant municipal government fails to grant our concession through a tender process according to the Concession Measures. See “Risk Factors — Risk Relating to Our Business and the WTE Industry — Certain of our concessions were not granted through a tender process consistent with applicable PRC rules”.

Notwithstanding the foregoing, Tian Yuan Law Firm, our PRC legal advisors, are of the view that the foregoing does not constitute a violation of PRC laws or regulations by our Company, will not pose a material legal obstacle to the Global Offering, and the risk that our concession rights would be invalidated is remote for the following reasons: (i) municipal government authorities dictate the implementation of a concession system and the Concession Measures currently do not specify any administrative penalties or termination of concessionary rights for the concessionaire as a result of the foregoing non-compliance by the relevant municipal government authorities; (ii) the concession agreements comply with the requirements of the Contract Law of the People's Republic of China (order No. 15 of the President of the People's Republic of China) 《中華人民共和國合同法》(主席令第15號)). According to the Contract Law of the People's Republic of China and its relevant interpretation, a people's court shall make the determination, based on laws adopted by the National People's Congress or its Standing Committee and the administrative regulations adopted by the State Council, rather than based on local regulations or local administrative rules, to invalidate a contract. As the Concession Measures are departmental rules under which the implementation of a concession system to select the concessionaire for waste treatment facilities through a tender process is a requirement for municipal government authorities, our concession agreements in relation to these projects remain effective, legal, valid, enforceable and binding on their respective parties, and will not lapse by reason of the failure of relevant municipal

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public utility authorities to award our concessions through a tender process; (iii) based on confirmations from our Company and diligence on the part of Tian Yuan Law Firm, our PRC legal advisors, as of the Latest Practicable Date, our Company and the relevant subsidiaries are in compliance with the terms of our BOT agreements and there are no disputes with relevant government authorities in relation to such agreements; (iv) based on confirmations from our Company and diligence on the part of Tian Yuan Law Firm, our PRC legal advisors, the relevant municipal government authorities where our WTE projects are located have not imposed any penalties on our Company and our subsidiaries with respect to the foregoing issue. In addition, our project companies in operation have received certificates from the local Ministry of Construction stating that the relevant project companies are in compliance with relevant construction regulations and administrative rules, and have not been subject to administrative penalties in relation to project construction and project management; and (v) our Controlling Shareholder, BSAM, has undertaken to indemnify us in full for any economic loss that we and/or our subsidiaries may incur with respect to any non-compliance with the Concession Measures.

For the reasons discussed above, we have not and do not intend to seek a clarification from government authorities for this non-compliance with the Concession Measures. In addition, we are unable to rectify such non-compliance as the Concession Measures impose obligations on the local government authorities rather than on the concessionaire.

We were aware that when the relevant concessions were entered into, the relevant customers were not in compliance with the Concession Measures. However, as the legal implications and potential liabilities are uncertain, it is unclear what would be our liability for the relevant municipal governments' non-compliance with the Concession Measures. According to our PRC legal advisors, Tian Yuan Law Firm, our knowledge at the time when the relevant concessions were entered into is not a consideration factor under PRC law. In relation to these the 13 BOT projects (excluding the two projects for which we have entered into non-legally binding framework agreement) that did not receive concessions through a tender process consistent with those required under the Concession Measures, four projects (Haining, Pingyang, Yongjia and Wuhan projects, which are all in commercial or trial operation) have subsequently received compliance certificates (which were not issued specifically for the non-compliance with the Concession Measures) from the local Ministry of Construction, indicating that we are in compliance with applicable laws and regulations governing construction and construction management.

### **Marketing**

We actively promote our products and services as well as our know-how in waste management solutions at environmental protection exhibitions, trade shows and industrial and scientific conferences in order to maintain existing relationships and establish new relationships with persons who are responsible for the management of municipal solid waste treatment.

As a result of the PRC government's policies promoting environment protection, including but not limited to the Twelfth Five Year Plan, the PRC press and other media increasingly report on environmental issues. We also pursue our marketing through contacts with journals and other media outlets focusing on environmental topics. We ensure that our business and technologies are prominently positioned in press reports and regularly participate in industry related seminars and conferences to raise our profile.

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Our BOT projects generally do not generate repeat business because each facility is designed to meet the anticipated requirements of the customer over a long period of time. Nevertheless, we believe that the successful completion of a waste incinerator with one public entity might be followed by orders from entities in other cities. Municipalities with one of our WTE facilities may also enhance their own reputation as socially conscious and environmentally sustainable cities. Our strategy of expanding in the areas surrounding our existing projects is designed to leverage our reputational capital and is directed in particular at neighboring municipalities that are also seeking a “greener” profile.

### CUSTOMERS

Our principal customers for WTE facilities are local government authorities and SOEs in small and mid-sized cities located in the developed areas of the PRC. For these customers, reasonable initial investment costs, along with our initial responsibility for the operation and maintenance of the facilities, are more important than timing considerations. However, the key concern for these customers is the benefit for residents that can be achieved from waste incineration in relation to the required investment costs. Our relationships with our customers are generally for the duration of our BOT concession periods, which typically range from 23-30 years.

As our business is project-driven, we are not dependent on any specific customer for the success of our business. Our customers are generally local municipal authorities and power grid companies. For the years ended December 31, 2011, 2012 and 2013, our single largest customer accounted for 34.8%, 22.6% and 32.1%, respectively, of our total turnover. For the same period, our five largest customers in the aggregate accounted for 88.2%, 84.3% and 83.5%, respectively, of our total turnover. Please see “Risk Factors — Risks Relating to Our Business and the WTE Industry — We rely on a limited number and type of customers for substantially all of our income.” None of our Directors, their 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 these five largest customers during the Track Record Period. None of our major suppliers are also our customers.

### SERVICES INCOME FROM PROJECT OPERATION

Our primary sources of turnover are construction income from our BOT projects, waste treatment fees, electricity tariffs and fees for other services. Upon commencement of operations at any of our BOT projects, we will operate the plant and the relevant administrative authority will pay us a waste treatment fee. Electricity generated from the incineration process will be sold (apart from that portion consumed internally) to the relevant power company. At the end of the fixed concession term, we are required to transfer the operation and all our rights, title to and interest in the plant to the relevant administrative authority. We will not obtain any compensation or consideration for such transfer. We will, however, earn income from the incineration and treatment of the municipal solid waste and the sale of electricity during the relevant concession period.

We will sell the electricity to the relevant power company pursuant to an electricity sales and purchase agreement entered into with such power company. The power company will generally pay us a fee on a monthly basis.

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### **Waste treatment fees**

Our turnover from waste treatment fees are determined by the total amount of waste that we receive at a given facility and the fee set by the relevant concession agreement. Most of our concession agreements also include guarantees of a minimum amount of municipal solid waste to be delivered for processing during the concession period. Our waste treatment fees for current projects typically range from approximately RMB50 to RMB90 per ton. Some of our service concession contracts also provide for inflation protection by allowing for adjustments to the waste treatment fee following increases in operating costs.

### **Electricity sales**

Our turnover and profit from electricity sales are directly affected by the tariffs for our net generation. We sell our electricity to grid companies at the tariffs determined by the relevant pricing authorities or under the relevant concession agreement. Pursuant to NDRC policy, the tariff for WTE projects in China is RMB0.65 per kWh (VAT inclusive), subject to certain conditions and receiving approvals from relevant authorities. Certain of our projects are entitled to this preferential tariff, while others are in the process of applying for the qualification.

### **Credit period**

It is our practice to monitor and follow up on the payment status of our customers. Payments due for our waste treatment fees and electricity tariffs from local government authorities and power grid companies at our operational WTE projects are generally settled on a monthly basis. We normally extend a 10 to 30-day credit period for payment from the date of these invoices. We have not experienced any material bad trade debts during the Track Record Period. Similarly, we have not experienced significant difficulties in collecting trade receivables.

## **RESEARCH AND DEVELOPMENT**

Our proprietary technologies, which we have adapted to suit the needs of the PRC waste treatment market, constitute one of our key competitive strengths. To maintain our competitive advantage, we prioritize the continuous improvement and innovation of technologies and applications for our waste treatment and WTE operations. As of the Latest Practicable Date, we employed 27 research and development personnel, of which 21 had a bachelor's degree or above.

We adopt a commercially driven approach in selecting our research and development projects. Our research and development efforts focus on (i) improving and adapting our existing technologies and treatment techniques to meet the specific requirements of our current projects, so as to increase the operational efficiency of our WTE plants; and (ii) developing and commercializing new technologies in areas where we believe there is a strong potential for growth in the near to medium term. In 2014, we are undertaking the development of 400-ton grate incinerators, for which the total estimated cost is RMB10 million, and improving our 350-ton grate incinerator, for which the total estimated cost is RMB5 million. In addition, in 2014-2015, we plan to develop

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waste incineration flue gas purification processes, for which the total estimated cost is approximately RMB25 million, and oxygen-enriched waste incineration processes, for which the total estimated cost is approximately RMB25 million. We plan to fund these research and development initiatives through proceeds from the Global Offering and from working capital. As of the Latest Practicable Date, we have incurred expenditure of RMB3.8 million for these research and development projects.

By investing in the development of technologies and processes that we believe will be widely applicable in the future, and by participating in the process of setting new industry standards, we seek to solidify our competitive position and maintain our technological advantage. Our research and development expenses (as part of our direct cost and operating expenses) for the years ended December 31, 2011, 2012 and 2013 were RMB4.6 million, RMB5.1 million and RMB7.6 million, respectively.

### **Collaboration with academic and research institutions**

We also undertake research and development initiatives in collaboration with industry-renowned experts and research institutions. On August 16, 2013, we entered into a strategic cooperation framework agreement with Huazhong University of Science and Technology's State Key Laboratory of Coal Combustion and Wuhan Iron and Steel (Group) Company Limited to study and develop oxygen enrichment incineration technology. The agreement sets out a framework for collaboration to develop industrial applications of such technology, with specific terms to be agreed separately.

### **INTELLECTUAL PROPERTY**

As of the Latest Practicable Date, we held thirteen patents and were in the process of applying for nine patents in the PRC. Our proprietary technologies include the multiple drive expeller grate waste incinerator technology, which was selected by the Ministry of Construction as a core industrial technology to promote. We also hold various registered trademarks in the PRC for the name "Dynagreen" and our corporate logo, along with rights to the domain name for our main corporate website. To the best knowledge of our Directors, we were not involved in any dispute relating to intellectual property infringement. See "Statutory and General Information — Further Information about Our Business — Our intellectual property rights" in Appendix VI of this prospectus.

Over the next few years, we intend to focus on the development of grate incinerators based on our current 350-ton grate incinerator technology. In addition, we plan to develop new processes and technologies, including technologies to reduce with gas, waste water (leachate), ash and odors, to enhance the efficiency of our WTE plants and to better control our environmental emissions. In addition, we also plan to develop technologies for processing other types of solid waste.

### **COMPETITION**

The WTE industry in the PRC has evolved significantly over the past decade but remains in an early stage commensurate with the PRC's broader environmental infrastructure development. The market is highly

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competitive and fragmented, with high barriers of entry due to the capital intensive nature and high technological demands of WTE facility construction. As of December 31, 2012, the amount of municipal solid waste generated per year in the PRC's cities was 237 million tons, while total waste treatment capacity was estimated to be only 179 million tons per year, of which only 19.0% was through incineration. The PRC government has adopted various policies favoring the WTE industry, and according to the Twelfth Five Year Plan, the proportion of waste treated through incineration should increase to 35% by 2015. Most small or mid-sized PRC cities still lack appropriate waste treatment facilities. A WTE facility is considered part of a municipality's infrastructure and, in a small or mid-sized city, would typically enjoy a natural monopoly to process waste from the city. We believe that the favorable policies and market dynamics in the PRC present significant opportunities for growth and expansion of our business.

As a WTE facility is considered part of a municipality's infrastructure and generally enjoys a certain geographical exclusivity upon commencement of operations, most competition in the WTE industry occurs during the project bidding phase. Our existing and potential competitors primarily comprise SOEs as well as private companies engaged in waste incineration and WTE, including Everbright International, Weiming Group Co. Ltd., Chuang Guan Huan Bao, Shanghai Environmental, Sanfeng Environment, SE Environment and Hangzhou Jinjiang Group. Our competitors compete with us in terms of technology, quality, price, brand recognition, project execution capability, marketing and customer service. Some of our competitors have greater financial, marketing or other resources and some have more advanced technologies. Certain competitors may also have greater brand recognition, economies of scale, or longer track records and more established relationships in certain markets in which we operate. However, we believe that we can compete effectively by virtue of (i) our strong project execution capabilities and extensive track record; (ii) our cost-effective and highly efficient proprietary technologies; (iii) our well-established market position and reputation; and (iv) our specialized focus on treatment of municipal solid waste for small and mid-sized cities. For more information on competition, please refer to the section headed "Risk Factors — Risks relating to our business and the WTE industry — Competition could intensify following the entry of domestic or international competitors into the market".

According to EY Advisory, as of December 31, 2013, we were among the top ten WTE companies in the PRC based on actual waste treatment capacity, with a daily waste treatment capacity of 5,250 tons. As of the same date, we ranked third among WTE companies engaged in solid waste treatment in the PRC in terms of total contracted waste treatment capacity, with a total contracted waste treatment capacity of approximately 20,000 tons on a daily basis. Total contracted capacity includes all of the waste treatment capacity of a company's projects in operation, under development and in the preparation stage. We had 20 projects in operation, under development or in the preparation stage across the PRC as of December 31, 2013, and ranked second among WTE companies and first among companies using grate incinerator technology in the PRC in terms of number of projects in operation or under development, according to EY Advisory. According to EY Advisory, as of December 31, 2013, we were among the top 10 WTE companies in terms of actual waste treatment capacity (such top ten companies representing over one-third of the estimated total waste treatment capacity in the PRC). According to EY Advisory, as of December 31, 2013, the 10 largest WTE companies in the PRC had a total contracted municipal solid waste treatment capacity of 157,000 tons per day. Among these, the top three players, including our Group, collectively accounted for a total contracted waste treatment capacity of 70,000 tons per



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day, representing approximately 45.5% of the top 10 players' market share. According to EY Advisory, as of December 31, 2013, we had an estimated market share 3.7% in the PRC in terms of actual waste treatment capacity, based on the estimated total treatment capacity of the PRC waste incineration market.

### QUALITY CONTROL

#### Project operation

Our operations department, led by Mr. Huang Jianzhong, is responsible for quality control at our operational projects. Mr. Huang qualified as a senior operations manager in 2000 and is assisted by a team of engineers who are responsible for conducting regular inspections at each of our facilities. We have implemented quality control standards and procedures for our projects to ensure timely and high quality provision of our services. In addition, we have also implemented quality controls on labor, mechanical equipment and emissions in our projects, including conducting sampling tests on emissions and quality inspection on materials, parts and components and working procedures.

#### Project construction

We have established a construction management department which is led by our head of project construction, Mr. Hou Zhiyong, who has more than 15 years of experience as a qualified senior engineer. Mr. Hou is assisted by a team of more than 40 personnel, the majority of which are professional engineers, responsible for overseeing safety, quality, progress, functionality and the costs of the project as well as providing senior management with timely updates on the project. In procuring equipment, we take part in appraising and selecting the major equipment and the equipment suppliers and evaluating their work. We also participate in the evaluation activities conducted by construction units, supervisory units and commissioning units and give guidance during the preparatory work phase of new construction projects.

We have implemented quality controls over our construction processes and methods in our project construction service. During the construction implementation period, we have a dedicated construction management team that is directly responsible for the effective management of the project. We adopt various measures to monitor the performance of our contractors, subcontractors and suppliers. We specifically require design contractors to base project designs on proven techniques, operation and maintenance convenience and construction feasibility. When engaging contractors for construction services, we set forth specific technical quality standards during the tender process and require the contractors to submit their construction plans and designs as well as their major construction technology approach for the approval of the supervisors and our professional engineers. During the construction period, we require our contractors and subcontractors to comply with PRC laws and regulations with respect to the quality of construction, as well as our own standards and specifications. The contractors and subcontractors are also subject to our quality control procedures, including examination of materials and supplies, regular and ad hoc on-site inspection of construction work, regular meetings and production of progress reports. We also have on-site management teams to monitor subcontractors' work and ensure compliance with relevant rules and regulations.

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We have established independent quality control departments for each of our projects in operation and under construction to supervise our operation and construction quality. We have implemented certain quality control standards established by the International Organization for Standardization. In 2011, we received ISO9001, ISO14001 and OHSAS18001 accreditation for our quality control.

### **PRODUCT WARRANTY AND PERFORMANCE GUARANTEE**

#### **Performance Guarantee**

Under our BOT agreements, we are required to construct facilities which adhere to the customer's specific requirements in accordance with an agreed timeline. From time to time upon the request of customers, we are required to post either a letter of performance guarantee or a security deposit valued at no more than 10% of estimated total investment of the BOT project. If we are unable to fulfil our responsibilities and duties during the construction phase of the project, as set forth by the project contract, our customers reserve the right to retain our security deposit or present the letter of performance guarantee to the relevant financial institutions to secure the corresponding funds. Typically, we are relieved of our letter of performance guarantee or returned our security deposit approximately one year after receipt of the final construction certification and when the project commences commercial operation. During the concession period, we are responsible for the maintenance and repair of equipment and facilities. In addition, at the termination of our concession agreement, we may provide customers with a letter of transfer guarantee, typically for an amount equivalent to not more than six months of operating income from the project or for an amount of not more than RMB20 million for some projects. Generally, we are relieved of our obligations under the letter of transfer guarantee within one to two years after the transfer.

#### **Warranties From Third Party Contractors**

Under the terms of the agreements with our third party contractors, we generally retain 5% to 10% of the total contract value until the expiry of the warranty period to cover potential expenses from quality defects. Under the contracts for construction of the buildings and other facilities for our WTE plants, the warranty period generally extends for one year following the final construction certification. Under our procurement contracts for major equipment, including incinerators, turbine generators and flue gas processing systems, the warranty period generally extends one year from the time at which the equipment is installed and certified as functional. In the case of serious quality defects requiring replacement or significant overhaul of the affected facilities or equipment, our contracts generally provide for a corresponding extension of the warranty period.

While we may attempt to seek indemnities from the relevant third party contractors for construction defects which cause us to be unable to perform our obligations under the concession agreements, the third party contractors may not be able to perform their obligations in a timely manner or at all. Moreover, warranty periods provided by third party contractors may be shorter than the warranty period we provide to our customers, and warranty claims against third party contractors may be subject to certain conditions precedent that are not easily satisfied. If no claim can be asserted against the third party contractors who provided the services, or if we cannot

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recover the amounts that we claim, we may be liable for customer claims to the extent that such amounts are not covered by insurance.

### **HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION**

We regard occupational health and safety and environmental protection as an important social responsibility. We have adopted a health, safety and environmental supervision and management model comprising government supervision, societal monitoring and corporate internal controls.

#### **Health and safety**

##### ***Project operation***

Our business operations have been, and may in the future be, subject to unexpected incidents and accidents resulting in fatalities caused by falls from heights, toxic gases or other events. During the Track Record Period, no accident resulting in a significant casualty was recorded at our operational facilities. As of the Latest Practicable Date, no material claim has been brought against us as a result of any accidents, nor have any accidents had any material impact on our business operations or our reputation.

We continue to enhance our quality and safety controls based on our experiences. We have also established various internal regulations and systems such as production safety rules and procedures for incident inspections and exception management and ensure their strict compliance. We have adopted a series of safety measures, pursuant to which we established a clear internal structure with detailed responsibilities of each department. Our safety measures include implementation of regular onsite safety checks for each WTE plant operated by us and regular internal safety checks conducted by the power plants. We also organize and conduct safety training and educational activities. Typically, we perform statistical analyses based on monthly safety and environmental protection reports, which contain data on incidents reported, safety objectives for the next month, and an assessment of the month's production safety record. At the beginning of each month, we undergo a strict appraisal with respect to the achievement of the previous month's safety objectives. We have also formulated an ad-hoc incident reporting system to handle ad-hoc incidents.

##### ***Project construction***

Our project construction sites have been, and may in the future be, subject to unexpected incidents and accidents resulting in injuries or fatalities. During the Track Record Period, other than one accident resulting in severe injury occurring in Changzhou, no accident resulting in a significant casualty was recorded at our project construction sites. See “— Compliance with Relevant Laws and Requirements — Historical non-compliance incidents”. As of the Latest Practicable Date, no material claim has been brought against us as a result of any accidents, nor have any accidents had any material impact on our business operations or our reputation.

We ensure timely and effective control over production safety by setting safety objectives, identifying worksite hazards and conducting risk assessment and analysis while adopting prevention and treatment solutions for major production procedures and implementing appropriate emergency measures.

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We have also adopted measures for the management of subcontractors involved in the design and construction work for our projects. We establish clear standards for engineering firms to follow in designing our projects. We also have specific technological requirements that must be met by project contractors under the supervision of our specialized project engineers. See “Risk factors — Risks Relating to our Business and the WTE Industry — Our operations are subject to inherent operational risks and occupational hazards, which could cause us to experience unexpected suspension of our operations and/or incur substantial costs”.

### **Environmental protection**

We are subject to PRC national and local laws and regulations relating to air pollution, noise emissions, hazardous substances, sewage and waste discharge and other environmental matters. See the section entitled “Regulations” in this prospectus for additional details. We place great emphasis on environmental protection and reducing the environmental impact of our operations. Our environmental management system incorporates various measures to avoid, minimize and mitigate the potential adverse environmental impact of our projects. We have established various rules and systems such as the “Environmental Protection Management System of the Group” and ensure their strict compliance. We have also established an ad-hoc incident reporting system for handling ad-hoc incidents and have established a comprehensive environmental oversight division. The establishment of our environmental oversight division, implementation of our environmental protection management system and the consistent operation of our existing environmental protection facilities are in compliance with the relevant regulations. Our existing pollution management facilities are comprehensive and in compliance with environmental requirements of the relevant regulations. The advanced processing technology and capabilities allow us to comply with the standard requirements on emission of pollutants. We perform statistical analyses based on our monthly environmental reports, in which we set environmental standards (including for exhaust emission, wastewater and solid waste) that will be added to the scope of appraisal for the next month, and include an overview of monthly environmental issues. At the beginning of each month, we undergo a strict appraisal with respect to the achievement of the previous month’s environmental standards. In addition, we implement regular onsite safety checks for each WTE plant operated by us and require our WTE plants to conduct regular internal safety checks. To highlight the importance of environmental protection, we promote and educate our staff about environmental policies in a number of ways.

The following sets forth the measures we have formulated in respect of major pollution sources, such as exhaust emission, wastewater, solid waste and noise.

### ***Emission Control Measures***

WTE projects emit significant odors from its waste incinerators, waste storage pits and waste weighing scales. Emissions include organic pollutants, acidic gases, heavy metals and particulate matter. Smoke and dust, sulfur dioxide, carbon monoxide, nitrogen oxide, hydrogen chloride, mercury, cadmium, lead, dioxin and fluoride are all sources of pollution, while ammonia and hydrogen sulfide are mainly responsible for the odors from waste storage pits.

All of our project companies have implemented treatment processes which include deacidification, dioxins absorption, and bag house filtering. In particular, dioxin emissions produced by waste incineration have been a

major focus of public concern. We have successfully reduced our dioxin emissions such that our emissions are significantly below the limits set by national PRC emission standards and are able to meet the standards specified in Directive 2000/76/EC of the European Parliament and of the Council issued by the EU for waste incineration in December 4, 2000. According to EY Advisory, the standard for dioxin emissions for new waste incineration projects in Europe and Japan is below 0.1ng-TEQ/Nm<sup>3</sup>, whereas the current PRC standard is 1.0ng-TEQ/Nm<sup>3</sup>. While our projects in trial operation must, before commencing commercial operation, file an application with the competent administrative department of environmental protection for environmental protection acceptance for construction projects, which includes a dioxin emission inspection report prepared by a third party with appropriate qualifications, dioxin emission levels for our projects in commercial operation are also regularly inspected by such qualified third parties and the relevant local environment protection bureau. During the Track Record Period, both of our projects in commercial operation (Changzhou and Haining projects) passed all dioxin emission inspections required by relevant regulatory authorities and were able to meet the international dioxin emission standard (below 0.1 ng-TEQ/Nm<sup>3</sup>) in the majority of inspections. Among our projects in trial operations, Pingyang and Yongjia projects have also met the international dioxin emission standard in emission inspections conducted for environmental protection acceptance for construction projects, while our Rushan, Taizhou and Wuhan projects are still awaiting inspection or result of inspection. In response to the odors emitted by our operations, our project companies have implemented mechanisms to minimize odor emission which include sealing the incineration system save for the waste discharge port, installing ventilation devices and rerouting air from waste storage tanks to the incinerator for combustion while maintain negative pressure in the waste storage tanks. In order to prevent dissipation of odors emitted from leachate into the surrounding environment, we funnel leachate to a treatment station for processing where its odor is separated and rerouted to the waste incinerator for combustion.

### *Measures for prevention and control of wastewater*

Water content of the waste received by our plants is high, and water seeps out of waste unloaded into the refuse pit. Wastewater in the form of leachate mainly comprises highly concentrated dissolved organic matter and inorganic ions, including large amounts of ammonia nitrogen, soluble cation, heavy metal, phenol, soluble fatty acid and other organic pollutants. In addition, our waste reception area requires cleaning regularly, which generates wastewater. Acid and alkaline wastewater, reused cooling water and sewage will also be generated from the boiler desalination station. We adopt membrane bioreactor technology or nanofiltration technology for wastewater treatment. Generally, we engage a third party for wastewater treatment to ensure that the sewage emitted by us to the municipal sewage pipe complies with emissions standards. We also reuse the treated wastewater from time to time.

### *Solid residuals*

The solid residuals generated by our projects mainly includes slag and ash. After cooling, magnetic separation and deferrization, the slag is stored in a room, where an impermeable layer is installed on the floor with grooves to gather water. Generally, the slag is delivered by truck to a third party company for brick making. The ash generated is stored in a sealed ash hopper. At certain of our projects, we have constructed ash solidifiers, which are situated indoors to prevent damage from wind and water. Solidified ash is then sent to landfills.

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### *Measures for prevention and control of noise*

Our sources of noise pollution mainly include the boiler, generator, exhaust fans of waste storage and other ancillary facilities. Measures for prevention and control of noise are adopted to reduce noise pollution by setting up low-noise and shock-absorbing equipment, soundproof doors and windows, and mufflers.

Our experience in constructing and operating our existing WTE projects ensures that we will adopt sufficient noise mitigation measures and supervision and reporting practices for our future WTE projects.

During the Track Record Period, we have paid penalties for certain instances of non-compliance with environmental regulations. See “— Compliance with Relevant Laws and Requirements — Historical non-compliance incidents”. As of the Latest Practicable Date, we are not aware of any material penalties associated with the breach of any existing environmental law or regulation. For the years ended December 31, 2011, 2012 and 2013, our environmental compliance costs were RMB9.3 million, RMB8.8 million and RMB19.0 million, respectively. We expect our environmental compliance costs at the project level to remain substantially similar to historical costs going forward. Our environmental compliance costs may increase in the future when we have additional projects entering into operation. We have not violated applicable laws and regulations in relation to emissions and environmental protection in any material respect and are not aware of any material breaches throughout the Track Record Period and as of the Latest Practicable Date.

### **INSURANCE**

Based on the level of our operating risks, we maintain insurance policies covering properties, equipment and plant and other assets as well as accidental injury and social security insurance.

We believe that the coverage from these insurance policies is adequate for our present operations and consistent with industry practice. Most of our project contracts do not impose an obligation on us or our customers to take out additional insurance. Where we sub-contract certain parts of our projects to subcontractors, our sub-contracting agreement provides that the subcontractor shall bear all liabilities and losses arising from the part of the project for which it is responsible.

### **INTERNAL CONTROL**

Our Board of Directors is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with applicable laws and regulations, we have established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for the needs of our organization. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. However, while our system of rules, policies and procedures are in place, there may still be weaknesses in their implementation. Moreover, we cannot guarantee that our employees will not, in their personal capacity, act in such a way that contravenes our internal control procedures. Though we believe our

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internal control systems have been effective in the past, we have recently undergone changes related to becoming a publicly listed company through the Global Offering, which may entail different requirements for our internal control systems. We have been further enhancing our internal control systems and we believe that our internal control systems are effective for the purposes for which they are designated. However, as our business continues to expand, we may need to further refine and enhance our internal control systems promptly and appropriately to respond to the evolving requirements of our expanded operations. We will continue to strengthen our internal control systems to ensure compliance with PRC and overseas regulatory requirements.

### **RISK MANAGEMENT POLICIES AND PROCEDURES**

Our operations department, led by Mr. Huang Jianzhong, is responsible for risk management at our operational projects. Mr. Huang qualified as a senior operations manager in 2000 and is assisted by a team of engineers who are responsible for conducting regular risk assessments at each of our facilities. Risk management for project construction is overseen by our head of project construction, Mr. Hou Zhiyong, who has more than 15 years of experience as a qualified senior engineer, assisted by a team of more than 40 personnel, the majority of which are professional engineers. In order to limit our exposure to the fluctuation of raw materials and equipment prices and subcontracting fees for our BOT projects, we have taken the following measures:

- budgeting engineering and procurement costs and expenses strictly in accordance with the specific needs of each project in order to control project costs;
- entering into fixed price agreements with raw materials and equipment suppliers from time to time;
- selecting equipment in strict compliance with the technical requirements of the facility design;
- selecting suitable subcontractors for construction during the tendering process;
- adopting a mechanism for reviewing the prices of raw materials and equipment provided by suppliers; and
- keeping management fees and payroll costs of a project under control through stringent control of staff numbers and reasonable deployment.

As a result of our pricing and risk management measures, the impact of fluctuating raw materials and equipment and sub-contracting fees on our gross profit margins have been low during the Track Record Period.

In order to avoid costs overruns in the construction of our projects, we have taken the following measures:

- selecting projects carefully and not accepting any project that we believe will not offer adequate profitability to cover the risks involved; and
- estimating costs at various stages prior to signing of agreements with customers, based on our experience in constructing WTE projects, and analyzing cost trends.

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Our procedures and processes to avoid cash flow mismatches include the following:

- controlling costs and minimizing the impact from fluctuations in the prices of raw materials and equipment;
- negotiating payment terms and conditions to minimize contract and financial risks; and
- implementing budgeting and internal cost control policies and conducting regular project reviews.

While we diligently employ the strategies described above to minimize our risks, the shifting of the risks associated with the construction of production facilities, such as delays and cost overruns, from our customers to us is inherent in the nature of our BOT business model. Our senior management and our legal and compliance personnel monitor compliance with risk management policies and procedures on an ongoing basis. However, as the factors leading to cost overruns and facility downtime are difficult to predict at the time of bidding or prior to signing a binding agreement, it may not be possible of us to fully alleviate the risks of cost overruns.

### EMPLOYEES

As of the Latest Practicable Date, we had a total of 804 employees, of which less than 15% were based in our headquarters in Shenzhen and the remaining employees were based at our subsidiaries. The following table presents a breakdown of our employees by function:

<u>Function</u>	<u>Number of Employees</u>	<u>(%)</u>
Management personnel .....	138	17.2
Financial affairs personnel .....	30	3.7
Technicians (including research and development personnel) .....	78	9.7
Sales personnel .....	12	1.5
Production personnel .....	483	60.1
Other assistants .....	<u>63</u>	<u>7.8</u>
<b>Total</b> .....	<b><u>804</u></b>	<b><u>100.0</u></b>

The following table presents a breakdown of our employees by level of education:

<u>Education</u>	<u>Number of Employees</u>	<u>(%)</u>
Master or doctorate degree .....	14	1.7
Bachelor's degree .....	157	19.5
College-level degree .....	318	39.6
Others .....	<u>315</u>	<u>39.2</u>
<b>Total</b> .....	<b><u>804</u></b>	<b><u>100.0</u></b>



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We place significant emphasis on staff development and selective recruitment. We have detailed recruitment procedures in place and seek to recruit and retain the best talent. We also use a fixed set of criteria in staff evaluation. We continually seek to improve our staff remuneration and benefits programs, fine-tune career-planning initiatives for our staff and upgrade the quality of our workforce through a combination of on-the-job training and formal courses to increase our competitiveness. We believe in maintaining and increasing the competency of our staff in order to enable them to utilize the latest technologies and achieve best market practices. We aim to ensure that our staff remains equipped with the necessary skills to stay relevant in their respective areas of work as this in turn helps us to maintain our competitiveness. Furthermore, we provide systematic training to encourage our employees to explore their potential such that they will be equipped with knowledge and skills necessary for operation and in turn enhance their productivity. By facilitating self-study, after-work training, on-the-job training and off-the-job training, we educate our employees about our history, culture, vision, beliefs and basic rules, as well as our systems and operation management, environmental and safety issues, WTE industry know-how, relevant laws and regulations as well as our core technologies and production procedures. In particular, we recruit recent graduates with high levels of education from technical schools, secondary technical schools, colleges and universities and train them through student mentoring programs to nurture a pool of back-up personnel.

To ensure effective operation of our facilities upon commencing operation of our new projects, we train, manage and maintain a pool of back-up operation staff at a ratio of one back-up personnel for every two permanent employees. We provide specific training for our back-up operation staff by assigning them to relevant positions for professional training based on a rotation system.

In accordance with the relevant requirements of local governments in the PRC where we operate, we make contributions to endowment insurance, purchase medical insurance, unemployment insurance, maternity insurance and injury insurance for our employees and housing funds. The amount of our contribution is based on the specified percentages of our employees' aggregate salaries as required under the PRC laws and regulations. We also make contributions to the housing fund for our employees according to applicable regulations in the PRC. During and prior to the Track Record Period, there have been instances in which we failed to make timely registrations for insurances and housing funds, and did not or did not fully pay insurances and housing funds. See “— Compliance with Relevant Laws and Requirements — Historical non-compliance incidents”.

In addition to statutory contributions, we also provide voluntary benefits to our employees. These benefits include supplemental medical insurance plans and annual bonuses for our current employees. For the years ended December 31, 2011, 2012 and 2013, our total employee compensation and benefits expense (including wages, salaries and benefits) amounted to approximately RMB36.6 million, RMB54.9 million and RMB81.8 million, respectively.

## PROPERTIES AND EQUIPMENT

Our head office is located in 007 Keji South 12th Street, Nanshan District, Shenzhen, PRC (中國廣東省深圳市南山區科技南十二路七號). As of March 31, 2014, we occupied three parcels of land with an

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aggregate area of approximately 161,859 square meters and one building with an aggregate gross floor area (“GFA”) of approximately 12,071 square meters. As of the same date, we occupied five parcels of land pursuant to the relevant BOT agreements with an aggregate site area of approximately 213,537 square meters, and one building with an GFA of approximately 17,884 square meters. Our BOT project companies occupied these parcels of land for the construction and operation of WTE facilities pursuant to the relevant concession agreements. Upon expiration of the relevant concession agreements, the properties will be transferred back to the local governments at nil consideration.

Our property valuer, Grant Sherman Appraisal Limited, has attributed no commercial value to these properties as we occupy these properties pursuant to the relevant concession agreements and we cannot freely transfer, lease or pledge the relevant properties.

In addition, we lease certain properties for our operations. As of the Latest Practicable Date, we leased a total of eight premises with a total GFA of approximately 3,397 square meters. For three of the leased properties, which has a GFA of approximately 1,152 square meters, the lessor has not shown documentation proving good title to the properties. As these properties are not used for our core operations, we believe we will be able to relocate quickly with minimal expenses. Tian Yuan Law Firm, our PRC legal advisors, are of the view that this title defect will not constitute a material legal obstacle to the Global Offering and our Directors believe that this is not crucial to, and will not have a material impact on our operations.

### **Analysis of material properties**

As of the Latest Practicable Date, no single property interest forming part of our non-property activities has a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 5 of the Hong Kong Listing Rules to value or include in this prospectus any valuation report of our property interests.

As such, according to section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which provides that our Company is required to submit a valuation report for all of its interests in land or buildings.

Our Directors believe, after taking into consideration of all relevant aspects of our Group and our business including the information set forth in the property due diligence report issued by our property valuer Grant Sherman Appraisal Limited, that the properties included in the table below comprise all of our material properties. Such properties are the properties used for our operations and auxiliary purposes and collectively constitute our major or material places of business.

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As of March 31, 2014, the details of main properties occupied by us for our WTE plants is set forth below:

Land User/ Holder of Building Ownership	Property Name and Address	Land (approximate sq.m.)	Building GFA (approximate sq.m.)	Occupied <sup>(1)</sup>	Nature of Land Use Rights/ Expiry Date
Changzhou Company	Changzhou WTE Project Land, buildings and ancillary facilities situated at Qingyun Village, Niutang Town, Wujin District, Changzhou City, Jiangsu Province, PRC	58,073	17,884	Free of charge according to BOT Agreement	occupied subject to BOT Agreement: December 30, 2030
Haining Company	Haining WTE Project Land, buildings and ancillary facilities situated along Guanchao Road, Guodian Village, Yanguan Town, Haining City, Jiaxing City, Zhejiang Province, PRC	39,738	12,071	Under our own name	Granted land: February 19, 2033
Pingyang Company	Pingyang WTE Project Land, buildings and ancillary facilities situated at Dongjiang Village, Qiancang Town, Pingyang County, Wenzhou City, Zhejiang Province, PRC	51,444		Free of charge according to BOT Agreement	occupied subject to BOT Agreement: September 29, 2037
Yongjia Company	Yongjia WTE Project Land, buildings and ancillary facilities situated at Houjiang Village, Oubei Town, Yongjia County, Wenzhou City, Zhejiang Province, PRC	40,003		Free of charge according to BOT Agreement	occupied subject to BOT Agreement: May 13, 2040
Wuhan Company	Wuhan WTE Project Land, buildings and ancillary facilities situated at Bajifu Road, Hongshan District, Wuhan City, Hubei Province, PRC	57,246		Free of charge according to BOT Agreement	occupied subject to BOT Agreement: 27 years from the date of construction of the property

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Land User/ Holder of Building Ownership	Property Name and Address	Land (approximate sq.m.)	Building GFA (approximate sq.m.)	Occupied <sup>(1)</sup>	Nature of Land Use Rights/ Expiry Date
Taizhou Company	Taizhou WTE Project Land, buildings and ancillary facilities situated at Red Banner Breeding Farm, Jiangyan City, Taizhou, Jiangsu Province, PRC	75,150		Under our own name	Allocated land: 30 years from the date of commencing the construction of the project
Rushan Company	Rushan WTE Project Land, buildings and ancillary facilities situated at South to the Kaifa Street, Economic Development Zone, Rushan City, Weihai City, Shandong Province, PRC	46,971		Under our own name	Granted land: July 24, 2063
Huizhou Company	Huizhou WTE Project Land, buildings and ancillary facilities located at Lanzilong Environmental Park, Huiyang District, Huizhou City, Guangzhou Province, PRC	6,771		Free of charge according to BOT Agreement	Occupied subject to BOT Agreement: January 23, 2043
Total		375,396			

(1) As we occupy these properties pursuant to the relevant concession agreement, we cannot freely transfer, lease or pledge the relevant properties.

### Equipment

The technical assets and machinery used in our BOT projects are recorded as our construction cost, and the relevant BOT concession rights are reflected as intangible assets on our balance sheet. During the concession period, we are responsible for the operations of facilities inside the WTE plants. Such equipment is maintained, repaired and overhauled according to a fixed schedule. Our quality control department is responsible for daily inspections. Our incinerators receive scheduled maintenance three to four times per year, with each maintenance cycle generally requiring three to five days of downtime. Each incineration plant typically will also receive a scheduled overhaul every four to six years and each overhaul generally requires 15 to 20 days of downtime.

We generally conduct our maintenance during low seasons and during such period, we would ensure that our operating capacity does not fall below the requirement, if any, under our concession agreements.

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### COMPLIANCE WITH RELEVANT LAWS AND REQUIREMENTS

#### Licences and permits

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality. We are required to obtain, among others, the following permits and licenses for our business activities:

- approval of investment project (投資立項);
- approval of the environmental impact appraisal report (環境影響報告書的批覆);
- construction land planning permit (建設用地規劃許可證);
- construction work planning permit (建設工程規劃許可證);
- construction work commencement permit (建築工程施工許可證);
- electric power business license (電力業務許可證);
- license for the treatment of domestic waste (城市生活垃圾經營性處置服務許可證);
- qualification for the operation of environmental and pollution treatment facilities (環境污染治理設施運營資質證書);
- pollutants discharge license (排污許可證); and
- water withdrawal license (取水許可證).

Please refer to the section headed “Regulations” in this prospectus for an overview of the regulatory and legal framework for our operations.

The pollutants discharge licenses or equivalent approvals for Pingyang, Changzhou, Wuhan and Rushan projects will expire in June, July, July and November 2014, respectively. In addition, the license for the treatment of municipal solid waste for Changzhou project will expire in November 2014. We undertake to apply for renewal of these licenses and expect to obtain the renewed licenses before their respective expiry dates. As advised by our PRC legal advisors, Tian Yuan Law Firm, if the relevant application documents are submitted to the relevant authorities in accordance with the application requirements and other relevant laws and regulations, and the relevant authorities are of the view that such renewal is in compliance with the requirements under the relevant application requirements and other relevant laws and regulations, there are no material legal impediments to renewing the relevant licenses. Other than the aforementioned licenses, all necessary licenses for our business activities that we have obtained will not expire within six months.

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Our Taizhou project commenced trial operations in 2013 prior to obtaining its license for the treatment of municipal solid waste. On December 6, 2013, the Taizhou Municipal Authority issued a certificate indicating that (1) the Taizhou project company has met all the conditions for obtaining a license for the treatment of municipal solid waste, (2) prior to receiving such license, the Taizhou project company may engage in municipal solid waste treatment and receive waste treatment fees, and the Taizhou Municipal Authority would not impose any administrative sanctions for such activity, and (3) since the date of its incorporation, the Taizhou project company has not been in violation of any laws or regulations relating to the collection, transportation and treatment of municipal solid waste. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Taizhou Municipal Authority is the competent authority to issue such certificate. Based on the abovementioned certificate and the license, which was obtained on February 12, 2014, Tian Yuan Law Firm is of the view that the Taizhou project company's prior lack of license for the treatment of municipal solid waste does not constitute non-compliance with applicable PRC laws and regulations.

As advised by our PRC legal advisors, Tian Yuan Law Firm, we have obtained all necessary licenses or equivalent approvals for our business activities as at the Latest Practicable Date except for the items discussed in “— Historical non-compliance incidents — Licenses and permits” below. Our Directors are of the view that such non-compliance incidents as set forth below have not caused and will not have a material adverse effect on our business, results of operations and financial condition. Our Directors are also not aware of any historical and material non-compliance of our Group under PRC laws and regulations during the Track Record Period and as at the Latest Practicable Date.

### **Historical non-compliance incidents**

#### *Licenses and permits*

##### *Wuhan project*

As the counterparty of the Wuhan BOT agreement has not yet received requisite agricultural land conversion and land acquisition approvals in order to obtain the land use rights certificate, as of the Latest Practicable Date, the Wuhan project is awaiting the construction work planning permit and the construction work commencement permit. On December 5, 2013, the Wuhan City Municipal Council (the “**Wuhan Council**”) issued a certificate stating that (1) they possess the land use rights to the parcel of land for, and has provided such land to the Wuhan Company in accordance with applicable laws for use in relation to, the Wuhan project; (2) they are currently in the process of obtaining the land use rights certificate in relation to the relevant parcel of land and there are no material obstacles to obtaining such certificate; and (3) they will ensure that the Wuhan Company does not suffer loss or other material impact relating to the delay in obtaining the land use rights certificate. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Wuhan Council is the competent authority, as the counterparty of the Wuhan BOT agreement, to issue such certificate.

On February 20, 2014, the Wuhan Rural Construction Committee issued a certificate stating that (1) because of the delay of the Wuhan Council to obtain the land use rights certificate for the relevant parcel of land, the Wuhan project has not received the construction work commencement permit. Due to the municipality's urgent need for the WTE facilities, the Wuhan project was constructed and commenced trial operation; (2) the

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land use rights certificate application is in process. The Wuhan project is able to apply for a temporary construction permit and Wuhan Council is handling this process; and (3) the Wuhan project has not been subject to administrative sanctions. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Wuhan Rural Construction Committee is the competent authority to issue such certificate.

On March 6, 2014, the Wuhan Bureau of Land Resources and Planning (the “**Wuhan Bureau**”) issued a certificate stating that (1) as the Wuhan Council, who is the Wuhan project owner, has not yet obtained the land use rights certificate for the relevant parcel of land, the Wuhan project has been unable to complete the procedures to obtain the construction work planning permit; (2) the land use rights certificate application is in process. The Wuhan Bureau will assist the Wuhan project in completing the relevant procedures to obtain the outstanding construction permits once the prerequisites are met; and (3) the Wuhan Bureau has not found the Wuhan Company to be in violation of any laws or regulations and has not imposed any administrative sanctions. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Wuhan Bureau is the competent authority to issue such certificate.

As of the Latest Practicable Date, the relevant government authorities have not imposed any penalties on us with respect to such issues. In addition, our Controlling Shareholder, BSAM, has undertaken to compensate us in full for any economic loss that we and/or our subsidiaries may incur.

Based on the foregoing, our PRC legal advisors, Tian Yuan Law Firm, have advised that, upon the Wuhan Council obtaining the land use rights certificate for the relevant parcel of land, there will be no material legal obstacles to the Wuhan project obtaining the construction work planning permit and construction work commencement permit for the Wuhan project, the Wuhan Company’s present lack of relevant construction permits does not constitute a material violation of applicable PRC laws and regulations, and there is relatively low risk that the Wuhan Company will be subject to administrative sanctions or suffer actual economic losses as a result of such non-compliance.

### *Huizhou project*

As the counterparty of the Huizhou BOT agreement has not yet received requisite agricultural land conversion and land acquisition approvals in order to obtain the land use rights certificate, as of the Latest Practicable Date, the Huizhou project is awaiting the construction land planning permit, construction work planning permit and construction work commencement permit. On February 10, 2014, the Huizhou City Huiyang District Bureau of City Appearance, Environment and Sanitation (the “**Huizhou Bureau**”) issued a certificate stating that (1) they possess the land use rights to the parcel of land for, and are able to provide such land to the Huizhou Company for, the Huizhou project; (2) they are currently in the process of obtaining the land use rights certificate in relation to the relevant parcel of land and there are no material obstacles to obtaining such certificate; (3) the Huizhou Company is in the process of obtaining the construction land planning permit, construction work planning permit and construction work commencement permit, and the Huizhou Bureau will assist the Huizhou Company to obtain such permits; (4) the Huizhou Bureau will provide the parcels of land with complete ownership, construction and planning procedures for Huizhou projects; and (5) the Huizhou Bureau endeavors to complete these procedures as quickly as possible to avoid causing any loss to the Huizhou Company. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Huizhou Bureau is the competent authority, as the counterparty of the Huizhou BOT agreement, to issue such certificate.

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On March 11, 2014, the Huizhou Bureau of Land Resources, Huiyang District issued a certificate confirming that (1) the Huizhou Bureau possesses the land use rights to the relevant parcel of land for the Huizhou project and the procedures for issuing the land use certificate are being completed; and (2) they have not found the Huizhou Company to be in violation of any laws or regulations. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Huizhou Bureau of Land Resources, Huiyang District is the competent authority to issue such certificate.

On March 12, 2014, the Huizhou City Huiyang District Housing and Urban Planning Construction Bureau issued a certificate stating that (1) as the Huizhou Bureau has not yet obtained the land use rights certificate for the relevant parcel of land, the Huizhou project has been unable to complete the procedures to obtain the construction land planning permit, construction work planning permit and construction work commencement permit; and (2) due to the municipality's urgent need for the WTE facilities, the Huizhou Company commenced construction at the request of relevant government authorities and will not suffer loss or other adverse impact as a result. As advised by our PRC legal advisors, Tian Yuan Law Firm, the Huizhou City Huiyang District Housing and Urban Planning Construction Bureau is the competent authority to issue such certificate.

As of the Latest Practicable Date, the relevant government authorities have not imposed any penalties on us with respect to such issues. In addition, our Controlling Shareholder, BSAM, has undertaken to compensate us in full for any economic loss that we and/or our subsidiaries may incur.

Based on the foregoing, our PRC legal advisors, Tian Yuan Law Firm, have advised that, upon the Huizhou Bureau obtaining the land use rights certificate for the relevant parcel of land, there will be no material legal obstacles to the Huizhou project obtaining the construction land planning permit, construction work planning permit and construction work commencement permit for the Huizhou project, the Huizhou Company's present lack of relevant construction permits does not constitute a material violation of applicable PRC laws and regulations, and there is relatively low risk that the Huizhou Company will be subject to administrative sanctions or suffer actual economic losses as a result of such noncompliance.

### *Yongjia project*

As of the Latest Practicable Date, the Yongjia project is awaiting the formal pollutants discharge license as its temporary pollutants discharge license expired in May 2014. On April 28, 2014, the Yongjia Environment Protection Bureau issued a certificate stating that the Yongjia project passed the environment inspection and the relevant formal approval will be issued shortly. As our Yongjia project passed the environment inspection before its temporary pollutants discharge license expired, we cannot apply for the renewal of the temporary pollutants discharge license which is only applicable to projects in trial operation. Instead, we must apply for the formal pollutants discharge license when the formal approval in connection with the environment inspection is issued by the local authority.

Our Controlling Shareholder, BSAM, has undertaken to compensate us in full for any economic loss that we and/or our subsidiaries may incur.



Based on the foregoing, our PRC legal advisors, Tian Yuan Law Firm, have advised that, upon our obtaining the formal approval in connection with the environment inspection and submitting all the required application documents to the relevant authority in accordance with the applicable laws and regulations, there will be no material legal obstacles to the Yongjia project obtaining the formal pollutants discharge license, and the Yongjia Company's present lack of the pollutants discharge license does not constitute a material violation of applicable PRC laws and regulations.

As advised by our PRC legal advisors, Tian Yuan Law Firm, if the relevant application documents are submitted to the relevant authorities in accordance with the application requirements and other applicable laws and regulations, and the relevant authorities are of the view that such applications are in compliance with the relevant application requirements and other applicable laws and regulations, there are no material legal impediments to obtaining such licenses/permits.

***Certificates and consents***

According to the Measures for Construction Project Management (for Trial Implementation) (Jian Shi [2004] No.200) (《建設工程項目管理試行辦法》(建市[2004]200號) (the “**Measures for Construction Project Management**”) promulgated on November 16, 2004 and implemented on December 1, 2004 by the former Ministry of Construction, “construction project management” enterprises (i.e. enterprises appointed by project owners to provide professional management services throughout the entire process or at different phases of a construction project) shall possess one or more qualifications including but not limited to engineering survey, design, construction, supervision, cost consulting and tender agency. Our Company entered into project management contracts with some of our subsidiaries and with Tongcheng Incineration and Power Generation Company for the provision of construction project management services. At the time we entered into and performed some services pursuant to these contracts, we had not yet obtained one or more qualifications (e.g., engineering survey, design, construction, supervision, cost consulting, tendering, etc.) required for enterprises rendering construction project management services under the Measures for Construction Project Management. In 2013, we acquired 100% of the equity interest of Fuli Company, which is a licensed construction enterprise qualified to provide construction project management services. After the acquisition, we entered into a series of agreements to transfer each of the aforementioned project management contracts for construction project management to Fuli Company. The respective parties to the project management contracts have confirmed that they fully understood the nature of our business qualifications and ability to fulfill our obligations under the relevant original general project management contracts at the time of their signing and performance notwithstanding our lack of qualifications specified under the Measures for Construction Project Management at the relevant times. The parties to the project management contracts have also confirmed that no outstanding conflicts and/or disputes subsist and that no rights or claims shall be made against us under the relevant project management contracts. Tian Yuan Law Firm, our PRC legal advisors, are of the view that the services rendered by us pursuant to the project management contracts constituted the provision of construction project management services under the Measures for Construction Project Management but would not constitute a material non-compliance with PRC laws and regulations as the Measures for Construction Project Management are departmental rules rather than laws or regulations and the Measures for Construction Project Management contain no specific penalties for conducting construction project management without appropriate qualifications

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and would not affect the validity of such contracts. Further, the relevant project companies have obtained confirmations from local ministry of construction supervising the construction of our projects certifying that they have not violated any applicable laws and regulations. In the event we suffer any loss or face additional risk in the future as a result of non-compliance with the Measures for Construction Project Management, BSAM, our Controlling Shareholder, has undertaken to compensate us. Tian Yuan Law Firm, our PRC legal advisors, are of the view that the foregoing will not constitute a material legal obstacle for the Global Offering. Based on the opinion of our PRC legal advisors above, our Directors believe that the foregoing will not have a material adverse effect on our operations.

### *Taxes*

In 2010, we were fined RMB10,000 and RMB200 for failure to pay our taxes on time. In July 2013, we were fined RMB500 for failure to properly report all of our bank accounts. In October 2013, we were fined RMB1,397.3 for underpaying property taxes. We have already fully paid these fines. Both Rushan Company and Jurong Company did not file their tax returns on time as they had no revenue during that period as such, the local tax offices did not impose any penalties on either company. Our PRC legal advisors, Tian Yuan Law Firm, are of the view that, based on the certificates issued by the responsible authorities, the possibility of being fined/fined again is minimal, and the aforementioned matter does not constitute a material non-compliance with PRC laws and regulations and will not constitute a material legal obstacle for the Global Offering.

### *Environment and safety*

In November 2010, Haining Company was fined RMB10,000 by the Haining Municipal Environmental Protection Bureau for failing to follow regulations, resulting in wastewater being released into the network. We have already fully paid this fine.

In January 2010, an accident resulting in serious injury to an individual occurred at our Changzhou facility. While the local government authority determined that the construction contractor was responsible for the accident, our Changzhou Company was fined RMB20,000 for lack of supervision and management. We have fully paid this fine.

Our PRC legal advisors, Tian Yuan Law Firm, are of the view that, the aforementioned matters do not constitute material non-compliance with PRC laws and regulations and will not constitute a material legal obstacle for the Global Offering.

### *Social insurance and housing funds*

Prior to December 20, 2010, we did not pay housing funds for our employees who are natives of Shenzhen with Shenzhen household registration as required by applicable laws and regulations. During the Track Record Period, there were also other instances in which certain of our subsidiaries did not make timely registrations for social insurance and housing funds and to fully pay social insurance and housing funds according to actual staff

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salaries. We have made provision for the outstanding social insurance and housing funds owed as of December 31, 2013 of RMB5.3 million and BSAM, our Controlling Shareholder, has undertaken to compensate us in full for any economic loss that we and/or our subsidiaries may suffer due to such instances of non-compliance. We and our subsidiaries have obtained written certification from the local administrative authorities of social security insurance and housing funds which state that no administrative penalties were imposed on us during the Track Record Period. Tian Yuan Law Firm, our PRC legal advisors, are of the view that the aforementioned matter does not constitute a material non-compliance with PRC laws and regulations and will not constitute a material legal obstacle for the Global Offering.

### *Corporate matters*

In October 2005, BSAM did not adhere to asset appraisal and evaluation requirements when conducting a capital injection into Dynagreen Environmental Engineering but subsequent capital injections by BSAM adhered to relevant requirements. Further, the appraised net asset value reports of such subsequent capital injections and our state-owned equity management scheme were also completed and approved by relevant regulatory authorities and there was no penalty imposed on BSAM or us. In addition, BSAM has undertaken to compensate or remedy any loss or risk that we suffer as a result of the above. Our PRC legal advisors, Tian Yuan Law Firm, are of the view that the aforementioned capital injection was lawfully registered and legally completed and therefore, the aforementioned matter does not constitute a material non-compliance with PRC laws and regulations and will not constitute a material legal obstacle for the Global Offering.

In 2000, according to Dow's Environmental Technology's articles of association and equity joint venture agreement, the registered capital was HK\$10,000,000, of which HK\$2,000,000 should have been paid up prior to June 29, 2000. However, the first payment toward the registered capital was not made until July 13, 2000. Capital contribution has been fully paid and relevant industry and commence government authorities have applied the register, and no penalty has been imposed on us as at the Latest Practicable Date. Our PRC legal advisors, Tian Yuan Law Firm, are of the view that the aforementioned matter does not constitute a material non-compliance with PRC laws and regulations and will not have any material adverse impact on the legality or validity of our Company's existence.

Save as disclosed in this section headed "Compliance with Relevant Laws and Requirements", as advised by our PRC legal advisors, Tian Yuan Law Firm, based on their due diligence and confirmation from our Company, we have complied in all material respects with the relevant PRC laws and regulations in relation to our business operations during the Track Record Period and up to the Latest Practicable Date. Based on the opinions of our PRC legal advisors above, our Directors are of the view that the abovementioned non-compliance incidents will not have a material adverse effect on our operations.

In order to prevent recurrence of non-compliances and ensure on-going compliance with the applicable laws and regulations, our Directors have discussed internally and met with the relevant staff members to identify the causes leading to the non-compliance incidents. Further, our Directors have sought advice from our legal advisors which are engaged to provide us with legal advice relating to the legal and regulatory requirements in connection with our operations and other matters arising from our ordinary course or business.

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## BUSINESS

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### LEGAL PROCEEDINGS

We are from time to time involved in certain legal proceedings arising in the ordinary course of our business, either as plaintiff, defendant or a third party in litigation or arbitration proceedings. During the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition. As of the Latest Practicable Date, to the best knowledge of our Directors, none of our Directors are involved in any material litigation or other legal proceedings.

### AWARDS

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

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| 2002 | Shenzhen Green Power Environmental Engineering Company Limited was awarded the Technology Enterprise 50   |
| 2006 | Dynagreen Environmental Engineering was awarded the Excellent Contribution to the Innovation of Environmental Friendly Technology in Guangdong Province (“廣東省環保產業科技創新突出貢獻獎”)  |
| 2008 | Dynagreen Environmental Engineering was awarded the Top 10 Iconic Brand Name in the Waste Treatment Industry in China (“中國垃圾處理行業十大標誌性品牌稱號”)   |
| 2011 | Blue-ocean Environment was awarded the Top Ten Influential Enterprise in the Solid Waste Industry of the Year 2010 (“2010 年度固廢十大影響力企業”)<br><br>Dynagreen Environmental Engineering was awarded the Guangdong Province Enterprise of Observing Contract and Valuing Credit (“廣東省守合同重信用企業”)   |
| 2012 | Our Company was awarded the 2012 Outstanding Company of Environmental Protection Industry in China (“中國環境保護產業骨幹企業”)   |
| 2013 | Our Company was awarded the National Environmental Protection Enterprise with Excellent Brand (“全國環保優秀品牌企業”)<br><br>The Waste-to-Energy Project in Changzhou was awarded the National Key Environmental Protection Practical Technology Model Project (“國家重點環境保護實用技術示範工程”)<br><br>Our Group was awarded the Top Ten Influential Enterprise in Solid Waste Industry of the Year for the third time |