THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

北 京 發 展 （ 香 港 ）有 限 公 司
BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTEREST IN THE TARGET GROUP INVOLVING ISSUE OF NEW BONDS
(2) PROPOSED CHANGE OF THE NAME OF THE COMPANY AND
(3) NOTICE OF EGM

Financial Adviser to the Company

CICC
中金香港证券

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

PLATINUM
Securities

A letter from the Board is set out on pages 10 to 58 of this circular.

A notice convening an EGM of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 18 July 2016 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

24 June 2016

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the sale and purchase of the Sale Interests pursuant to the Sale and Purchase Agreement;
"associate(s)", "connected person(s)", "controlling shareholder" or "subsidiary(ies)"	each has the meaning ascribed to it by the Listing Rules;
"Anjie"	北京金州安潔廢物處理有限公司 (Beijing Golden State Anjie Waste Treatment Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect 95.53% owned subsidiary of BEHL as at the Latest Practicable Date;
"BDEP (Haidian)"	Beijing Development Environmental Protection (Haidian) Limited, a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of the Company;
"BEHL"	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392) and a controlling Shareholder;
"BEHL Group"	BEHL and its subsidiaries (but excluding the Group);
"BEGCL"	Beijing Enterprises Group Company Limited, a company established under the laws of the PRC with limited liability and wholly owned by 北京市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality*) and the controlling shareholder of BEHL; BEGCL is the ultimate holding company of BEHL;
"Beijing Environment"	北京北控環保工程技術有限公司 (Beijing Environment Technology Company Limited*) a company established in the PRC with limited liability, and the immediate holding company of Hunan Hengxing, Beikong Wenchang, Ha'erbin Shuangqi and Beikong Shuyang;
"Beikong Shuyang"	北控環境再生能源沭陽有限公司 (Beikong Environment Renewable Energy Shuyang Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of BEHL as at the Latest Practicable Date;
"Beikong Shuyang Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – Beikong Shuyang" in the Letter from the Board;

"Beikong Wenchang"	北控環境(文昌)再生能源有限公司 (Beikong Environment (Wenchang) Renewable Energy Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of BEHL as at the Latest Practicable Date;
"Beikong Wenchang Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – Beikong Wenchang" in the Letter from the Board;
"Board"	the board of Directors;
"BOT"	build-operate-transfer, a project model in which a private entity receives a concession from the public sector to finance, design, construct and operate a facility stated in the concession contract for a definite period of time and transfer the facility and assets to the public sector after the completion of the concession period, at which point the obligation of the private entity to operate the designed and constructed facility effectively terminates;
"CAGR"	Compound Annual Growth Rate, the term for interest rate at which a given Present Value (PV) would "grow" to a given Future Value (FV) in a given amount of time. The formula for calculating CAGR is: (FV/PV)^(1/number of years) – 1;
"Company"	Beijing Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 154);
"Completion"	the completion of the sale and purchase of the Sale Interests in accordance with the terms of the Sale and Purchase Agreement;
"Conditions"	the conditions precedent to completion of the transactions contemplated under the Sale and Purchase Agreement, the major terms of which are set out in section headed "The Sale and Purchase Agreement – Conditions Precedent" in the Letter from the Board;

"Consideration"	the consideration for the sale and purchase of the Sale Interests;
"Current Market Price"	in respect of a Share at a particular date, the arithmetic average of the price of a Share for each day during the five consecutive business days ending on and including the business day immediately preceding such date;
"Directors"	the directors of the Company;
"EGM"	the extraordinary general meeting of the Company to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 18 July 2016 at 3:00 p.m. to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds) and (2) the proposed change of name of the Company;
"Enlarged Group"	the Group immediately after Completion;
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent third party industry consultant;
"FYP"	five-year plan, the regular plan proposed by the government of the PRC to design and guide the economic development during a period of five years, and 2011 to 2015 is the 12th FYP period;
"Gaoantun WTE"	北京高安屯垃圾焚燒有限公司 (Beijing Gaoantun Waste-To-Energy Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect 84.9%-owned subsidiary of BEHL as at the Latest Practicable Date;
"Gaoantun WTE Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – Gaoantun WTE" in the Letter from the Board;

"Group"	the Company and its subsidiaries;
"GSWM"	Golden State Waste Management Corporation, a company incorporated under the laws of the Cayman Islands with limited liability and an indirect wholly-owned subsidiary of BEHL as at the Latest Practicable Date;
"Ha'erbin Shuangqi"	哈爾濱市雙琦環保資源利用有限公司 (Ha'erbin Shuangqi Renewable Resources Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect 80%-owned subsidiary of BEHL;
"Ha'erbin Shuangqi Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – "Ha'erbin Shuangqi" in the Letter from the Board;
"Haidian Licensed Company"	北京北控綠海能環保有限公司 (Beijing Enterprises Holdings Lvhaineng Environment Co., Ltd.*), a company established under the laws of the PRC pursuant to the Joint Venture Master Agreement, which is owned by BDEP (Haidian) and 北京綠海能環保有限責任公司 (Beijing Lvhaineng Environmental Protection Co., Ltd.*) as to 99% and 1%, respectively;
"Haidian Project"	北京市海澱區循環經濟產業園再生能源發電廠項目 (Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Haidian Project), a household waste treatment plant located in Haidian District, Beijing;
"Hazardous Waste and Medical Waste Treatment Project"	means the Target Project that is specialising in the treatment of hazardous waste and medical waste, namely the Hunan Hengxing Project;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;

"Household Waste Treatment Projects"	means the Target Projects that are specialising in the treatment of household waste, namely the Gaoantun WTE Project, the Zhangjiagang WTE Project, the Ha'erbin Shuangqi Project, the Beikong Shuyang Project and the Beikong Wenchang Project;
"Hunan Hengxing"	湖南衡興環保科技開發有限公司 (Hunan Hengxing Environment Science and Technology Development Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect 65%-owned subsidiary of BEHL as at the Latest Practicable Date;
"Hunan Hengxing Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – Hunan Hengxing" in the Letter from the Board;
"Idata"	Idata Finance Trading Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of BEHL;
"Increase of Capital Contract"	the contract entered into between BDEP (Haidian) and the Original Shareholders on 28 June 2012 in relation to the proposed injection of RMB256,000,000 (equivalent to approximately HK$304,762,000) as additional registered capital, RMB27,550,000 (equivalent to approximately HK$32,798,000) as equity premium as well as advancement of shareholder's loans in the amount of RMB644,000,000 (equivalent to approximately HK$766,667,000) to the holding company of the Haidian Project;
"Independent Board Committee"	the committee of Directors consisting of Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping, Prof. Nie Yongfeng and Mr. Cheung Ming, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Acquisition;
"Independent Shareholder(s)"	Shareholder(s) other than BEHL and its associates and those who are involved in or interested in the relevant resolution(s) to be approved at the EGM;

"Initial Conversion Price"	the initial conversion price of HK$1.13 per New Conversion Shares (subject to adjustment in accordance with the terms and conditions of the New Bonds);
"kWh"	kilowatt-hour;
"Latest Practicable Date"	21 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in it;
"Listing Committee"	the Listing Committee of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Longstop Date"	30 June 2016 (or such other date as BEHL and the Company may agree in writing);
"MSW"	municipal solid waste, a waste type consisting of everyday items that are discarded by the public;
"New Bonds"	the convertible bonds due 2021 in the aggregate principal amount of HK$2,202,300,000 proposed to be issued by the Company to BEHL (or its designated nominee) pursuant to the Sale and Purchase Agreement;
"New Conversion Shares"	up to 1,948,938,053 Shares to be allotted and issued by the Company upon conversion of the New Bonds at the Initial Conversion Price;
"Original Shareholders"	collectively, 北京市海澱區國有資本經營管理中心 (The Beijing Haidian District State Owned Capital Management Centre*); 北京中海投資管理公司 (Beijing Zhonghai Investment Management Co.*); 北京海融達投資建設有限公司 (Beijing Hairongda Investment Construction Co., Ltd.*), and 北京市海澱區國有資產投資經營有限公司 (State-Owned Properties Investment & Management Co. of Haidian District, Beijing*);

"Outstanding Bonds"	has the meaning given to it under the section headed "Impact on the shareholding structure of the Company" in the Letter from the Board;
"Outstanding Conversion Shares"	has the meaning given to it under the section headed "Impact on the shareholding structure of the Company" in the Letter from the Board;
"PBOC"	People's Bank of China;
"Platinum" or "Independent Financial Adviser"	Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds). Platinum is a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO;
"PRC" or "China"	the People's Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan);
"PRC Legal Adviser"	Haiwen & Partners, the Company's legal adviser as to PRC laws;
"Retained Projects"	the eight solid waste treatment projects owned and retained by the BEHL Group, details of which are set out in the section headed "5. Relationship with BEHL" in Appendix I to this circular;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Interests"	collectively, (a) the entire issued share capital of GSWM; (b) 80% equity interest in Ha'erbin Shuangqi; (c) 100% equity interest in Beikong Shuyang; (d) 100% equity interest in Beikong Wenchang; and (e) 65% equity interest in Hunan Hengxing;

"Sale and Purchase Agreement"	the sale and purchase agreement dated 31 March 2016 entered into by the Company and BEHL relating to the Acquisition;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) in the share capital of the Company;
"Shareholders"	holders of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscription Agreement"	the subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto) entered into between the Company, Idata as subscriber, and BEHL as guarantor. Further details of the Subscription Agreement are set out in the Company's circular dated 21 December 2012;
"Target Companies"	collectively GSWM, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing;
"Target Group"	the Target Companies and its subsidiaries;
"Target Hazardous Waste and Medical Waste Company"	Hunan Hengxing, the Target Company that is operating the Hazardous Waste and Medical Waste Treatment Project;
"Target Household Waste Company(ies)"	Target Company(ies) that are operating Household Waste Treatment Projects, namely GSWM, Ha'erbin Shuangqi, Beikong Shuyang and Beikong Wenchang;
"Target Projects"	collectively, the Gaoantun WTE Project, the Zhangjiagang WTE Project, the Ha'erbin Shuangqi Project, the Beikong Shuyang Project, the Beikong Wenchang Project and the Hunan Hengxing Project;
"WTE"	waste-to-energy, the process of generating energy in the form of electricity and/or heat from the incineration of waste;

"Zhangjiagang WTE"	張家港金州再生能源有限公司 (Zhangjiagang Golden State Waste-to-Energy Co., Ltd.*), a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of BEHL as at the Latest Practicable Date;
"Zhangjiagang WTE Project"	has the meaning given to it under the section headed "Information on the Target Group and the Target Projects – Zhangjiagang WTE" in the Letter from the Board;
"Zhongguo Enfei"	中國恩菲工程技術有限公司 (Zhongguo Enfei Technology Company Limited*), an entity holding 20% equity interest in Ha'erbin Shuangqi; and
"%"	percentage.

For the purpose of this circular and for illustrative purpose only, RMB is converted into HK$ at the rate of HK$1 = RMB0.84. No representation is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

* *for identification purposes only*

北京發展（香港）有限公司
BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

Executive Directors:	*Registered Office:*
Mr. E Meng *(Chairman)*	66th Floor
Mr. Ke Jian	Central Plaza
Ms. Sha Ning	18 Harbour Road
Ms. Qin Xuemin	Wanchai
Mr. Ng Kong Fat, Brian	Hong Kong

Independent Non-Executive Directors:
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

24 June 2016

To the Shareholders,

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTEREST IN THE TARGET GROUP INVOLVING ISSUE OF NEW BONDS (2) PROPOSED CHANGE OF THE NAME OF THE COMPANY AND (3) NOTICE OF EGM

INTRODUCTION

On 31 March 2016 (after trading hours), the Company entered into the Sale and Purchase Agreement with BEHL, pursuant to which the Company has conditionally agreed to acquire and BEHL has conditionally agreed to sell the Sale Interests at an aggregate consideration of RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000). The Consideration will be satisfied by the issue of the New Bonds.

This circular provides you with, among other things, (i) further information on the Acquisition; (ii) financial information of the Group; (iii) accountant's report of the Target Companies; (iv) management discussion and analysis on the Group and the Target Group; (v) unaudited pro forma financial information of the Enlarged Group; (vi) the business valuation report of the Ha'erbin Shuangqi Project, the Beikong Shuyang Project and the Hunan Hengxing Project; (vii) the proposed change of the name of the Company; and (viii) a notice of the EGM.

A. THE ACQUISITION

A.1 The Sale and Purchase Agreement

Date

31 March 2016

Parties

(1) the Company (as purchaser)

(2) BEHL (as vendor)

Assets to be acquired

The Sale Interests, which comprises:

(a) the entire issued share capital of GSWM;

(b) 80% equity interest in Ha'erbin Shuangqi;

(c) 100% equity interest in Beikong Shuyang;

(d) 100% equity interest in Beikong Wenchang; and

(e) 65% equity interest in Hunan Hengxing.

Consideration and terms of settlement

The Consideration payable by the Company to BEHL is RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000), which has been arrived at after arm's length negotiations between the Company and BEHL after taking into account, among other things, (i) the then available financial information of the Target Group for the year ended 31 December 2015, in particular, the net asset value of the Target Group as at 31 December 2015, being approximately RMB1,132,971,000 (equivalent to approximately HK$1,365,024,000); and (ii) an independent study of the market comparables with business similar to that of the Target Group which was conducted based on (A) the comparable precedent transaction approach (prepared with reference to transactions in the solid waste treatment industry, being (i) MBK Partners and Hudson Clean Energy Partners disposing of their controlling stake in GSE Investment Corporation; (ii) Transpacific Industries Group Ltd. disposing of its waste management business in New Zealand to Beijing Capital Group Company Ltd; and (iii) the Company acquiring an interest in and shareholders' loan of KCS Taian Investments Company Limited and KCS Changde Investments Company Limited from Khazanah Nasional Berhad, or water treatment industry, including but not limited to, (i) China Everbright Water Ltd. acquiring a 100% equity interest of Dalian Dongda Water Co., Ltd.; and (ii) SIIC Environment Holdings Ltd. acquiring a 92% equity interest in Fudan Water Engineering & Technology Co., conducted in 2014 and 2015 and taking into account key-value indicators such as enterprise value/EBITDA for such transactions) and (B) the comparable company multiple approach (prepared with reference to the price to earnings ratios of comparable companies engaged in solid waste or water treatment businesses that are listed on the Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, such as Dynagreen Environmental Protection Group Co., Ltd, China Everbright International Limited, Dongjiang Environmental Company Limited and Capital Environment Holdings Limited).

Based on the comparable precedent transaction approach, the equity value of the Target Group is between RMB1,620 million to RMB2,300 million calculated by enterprise value/EBITDA, and RMB2,960 million to RMB3,640 million calculated by the price-earnings ratio. Based on the comparable company multiple approach, the equity value of the Target Group is between RMB1,390 million to RMB2,170 million calculated by the 2015 estimated trading multiples, and between RMB820 million to RMB1,760 million calculated by the 2016 estimated trading multiples. Based on the price-to-book ratio as the time of the independent study of market comparables, the equity value is between RMB1,480 million to RMB2,200 million.

As transactions in the solid waste treatment sector is limited, the valuation based on the comparable transactions precedent approach is biased by transactions in the water treatment sector, which has a higher valuation than transactions in the solid waste treatment sector. Accordingly, the market comparable study suggested to exclude the valuation derived from the comparable precedent transaction approach in determining the Consideration. However, the amount of Consideration falls within the range of the valuation derived from the comparable company multiple approach. This is consistent with the Company's understanding of the generally accepted pricing strategy for solid waste and water treatment business.

As the Company had insufficient cash and bank balance to settle the Consideration, as an alternative settlement for the Consideration, the Company had considered satisfying the Consideration by way of debt or equity financing. Having considered the financial resources of the Company, the Company concluded that obtaining bank loans or conducting equity financing was not feasible due to the lack of quality assets, resulting in unfavourable interest rate and inability to settle the Consideration by the Company's limited general mandate to issue new shares, respectively. Accordingly, the Consideration shall be satisfied at Completion by the issue of the New Bonds by the Company in the principal amount of HK$2,202,300,000 to BEHL (or its designated nominee). The issue of the New Bonds by the Company represents a good opportunity for the Company to strengthen its asset base as well as to further develop the Company into the sole listed platform under BEGCL for solid waste treatment. The New Bonds will provide attractive returns for the shareholders since the issue of the New Bonds will provide the Company with assets under the Target Companies without resulting in immediate dilution in the shareholding of the existing Shareholders. The Company considers in comparison with the prevailing market interest rate for external borrowings, as the New Bonds are non-interest bearing, it is the ideal method of settlement of the total Consideration having considered the financial situation of the Company.

Having considered all the factors as described in this section, the Company believes that the amount of the Consideration is justifiable.

The Company does not intend to compare the total value of Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing as set out in Appendix VI to this circular with the Consideration. The Consideration was determined solely with reference to the factors as described in this section and the total value of Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing as set out in Appendix VI to this circular was not one of such factors.

Conditions precedent

Completion is conditional upon the satisfaction of the following conditions precedent:

(a) the obtaining of approval from the Independent Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules;

(b) the Listing Committee granting the listing of, and permission to deal in, the New Conversion Shares;

(c) where applicable, the obtaining of consents, approvals and authorisation of the relevant regulatory authorities (including but not limited to the Stock Exchange) and relevant third parties which are required for the execution and performance of the transactions contemplated under the Sale and Purchase Agreement; and

(d) the Company and/or its subsidiaries having completed all necessary legal procedures for accepting the transfer of the Sale Interests (including but not limited to the entering into of equity transfer agreements for the sale of 80% equity interests in Ha'erbin Shuangqi, 100% equity interests in Beikong Shuyang, 100% equity interests in Beikong Wenchang and 65% equity interests in Hunan Hengxing).

The Company will use all reasonable endeavours (so far as it lies within its powers) to procure the satisfaction of the Conditions set out in paragraphs (a) to (d) above as soon as reasonably practicable and in any event before the Longstop Date and will promptly notify BEHL when each of the said Conditions have been satisfied.

BEHL will use all reasonable endeavours (so far as it lies within its powers) to procure the satisfaction of the Conditions set out in paragraphs (c) and (d) above as soon as reasonably practicable and in any event before the Longstop Date and will promptly notify the Company when each of the said Conditions have been satisfied.

None of the Conditions are waivable by the Company or BEHL.

If any of the Conditions are not fulfilled on or before 5:00 p.m. on the Longstop Date, BEHL (where the Company has failed to fulfill the Conditions applicable to it) or the Company (where BEHL has failed to fulfill the Conditions applicable to it) may by notice in writing elect to (a) postpone Completion to a later date or (b) terminate the Sale and Purchase Agreement.

Subsequent to the signing of the Sale and Purchase Agreement, the Company and BEHL have agreed to extend the Longstop Date to 31 October 2016.

As at the Latest Practicable Date, none of the conditions have been fulfilled.

Completion

Completion will take place on the fifth business day after the Conditions have been fulfilled (or such other date as BEHL and the Company may agree in writing).

Following Completion, GSWM, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing will be held as to 100%, 80%, 100%, 100% and 65% by the Company, respectively. Accordingly, all the Target Companies will become subsidiaries of the Company.

A.2 The New Bonds

At Completion, the Company will issue the New Bonds to BEHL (or its designated nominee) to satisfy the Consideration.

The New Conversion Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

Principal terms of the New Bonds

Issuer	:	The Company
Principal amount of the New Bonds	:	HK$2,202,300,000
Maturity date	:	The date falling on the fifth anniversary of the date of issue by the Company of the New Bonds
Initial conversion price	:	HK$1.13 per New Conversion Share

The Initial Conversion Price was determined with reference to (i) the prevailing market price of the Shares, i.e. (A) the closing price of HK$1.7 per Share as quoted on the Stock Exchange on the date of the Announcement; (B) the average closing price of HK$1.604 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement; and (C) the average closing price of HK$1.601 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement, which are commonly referred to as the reference price in the market, and was negotiated on an arm's length basis between the Company and BEHL and was determined after considering the relative large size of the Target Group compared with the Company's existing waste-to-energy projects, (ii) the low liquidity of the Shares and thus the lack of representativeness (i.e, a turnover ratio, which is a measure of stock liquidity calculated by dividing number of shares traded by number of shares outstanding, of 0.13% as at the date of the Announcement; average of 0.05% for the last five trading days up to and including the date of the Announcement and average of 0.04% for the last ten trading days up to and including the date of the Announcement) of the market price of the Shares, and (iii) the fact that the low profitability of the Company's solid waste treatment business cannot support the market price of the Shares. No minimum conversion price was stipulated in the terms and conditions of the New Bonds.

In light of (ii) and (iii) above, the Company applied discounts on the reference price, resulting in a discount of approximately 33.53%, 29.55% and 29.42% to (A), (B) and (C) above, respectively.

The Initial Conversion Price is subject to adjustment upon the occurrence of certain prescribed events, including:

(i) consolidation or subdivision of Shares;

(ii) capitalization of profits or reserves;

(iii) extraordinary distributions;

(iv) rights issues of Shares or options over Shares;

(v) rights issues of other securities;

(vi) issue (other than the event set out in paragraph (iv) above) wholly for cash of any Shares (other than Shares issued on the exercise of conversion rights), at a price per Share which is less than 95% of the Current Market Price; or

(vii) issue or grant of, whether for cash or otherwise, options, warrants or other subscription rights, at a price per Share which is lower than the fair market value (as determined by two leading independent investment banks) on the last business day preceding the date of announcement of the terms of such issue;

whereby in the case of (vi), the Initial Conversion Price shall be adjusted by multiplying the conversion price in force immediately before such issue by a multiple factor comprising the Current Market Price and the total number of Shares in issue immediately before such issue; and in the case of (vii), the Initial Conversion Price shall be adjusted by multiplying the conversion price in force immediately before such issue by a multiple factor including the Current Market Price, and fair market value which would be determined by two leading independent investment banks and the total number of Shares in issue immediately before such issue, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; and (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment banks) the fair market value of such options, warrants or other rights shall equal to the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded. The independent investment banks shall act as experts to determine what adjustment (if any) to the conversion price is fair and reasonable and shall consider in good faith to reflect the intentions of the provisions of the New Bonds.

This is a common term included in the terms and conditions of the New Bonds without referring to any specific circumstances. It is expected that the circumstances in which the Company would seek to avail itself to this flexibility to be extremely limited. As summarised above, there is a requirement to consult with two independent investment banks in making adjustments to the Initial Conversion Price, and the determination would be made by these independent investment banks, but not by the Company.

The Company will publish an announcement upon any adjustments to the Initial Conversion Price of the New Bonds.

The Company considers any adjustment by reference to such multiple factor to be fair and reasonable in balancing interests of holder(s) of the New Bonds, the Company and the Shareholders as a whole given the multiple factor is a pre-determined formula comprising objective and published information. The Company also considers any adjustment by reference to such multiple factor to be fair and reasonable to all Shareholders as a whole as any such adjustment so carried out would not itself be conferring any additional benefit to holder(s) of the New Bonds as against the Shareholders in the context of the relevant event triggering the adjustment. The Company therefore considers that foregoing events of adjustment are normal and customary of their kind.

The Initial Conversion Price represents:

(a) a discount of approximately 33.53% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange on 31 March 2016, being the date of the Company's announcement regarding the Acquisition and the New Bonds (the "**Announcement**");

(b) a discount of approximately 29.55% to the average closing price of HK$1.604 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement;

(c) a discount of approximately 29.42% to the average closing price of HK$1.601 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement;

(d) a discount of approximately 30.25% to the closing price of HK$1.62 per Share as quoted on the Stock Exchange on 21 June 2016, being the Latest Practicable Date;

(e) a discount of approximately 18.29% to the audited net asset value of the Group of approximately HK$1.383 per Share as at 31 December 2015, being the date to which latest published consolidated financial statements of the Company were made up to.

The holders of the New Bonds shall have the right, at any time during the period commencing from the date of issue of the New Bonds and ending on the maturity date, to convert the New Bonds in whole, or in any part representing at least HK$100,000 of the outstanding principal amount of the New Bonds, into the New Conversion Shares at the applicable conversion price.

Ranking	:	The New Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the other Shares in issue as at the date of issue of the New Conversion Shares.
Interest	:	The New Bonds shall be non-interest bearing.
Transferability	:	The New Bonds may be transferable in whole or in part in multiples of HK$100,000, provided that if necessary, the prior approval of the Stock Exchange shall be required for any transfer to any transferee which is a connected person (as defined in the Listing Rules) of the Company.
Early Repayment	:	At any time following the second anniversary of the date of issue of the New Bonds, the holder(s) of the New Bonds shall have the right at such holder's option to demand by giving three-months prior written notice to the Company for repayment of the aggregate amount of the outstanding New Bonds held by such bondholder which would have become payable on the maturity date of the New Bonds.
Voting rights	:	The New Bonds do not confer on the holder(s) of the New Bonds the right to vote at a general meeting of the Company.

Events of default	:	On the occurrence and subsequent continuation of certain events of default specified in the terms and conditions of the New Bonds (that is, failure to pay the principal, interest, premium or otherwise in accordance with the terms and conditions of the New Bonds, a continuing default in the performance or observance by the Company or any of its subsidiaries of any obligations under the terms and conditions of the New Bonds, winding up, liquidation or dissolution of the Company or any of its subsidiaries, the taking of possession of or the appointment of a receiver over the assets of the Group, the Company or any of its subsidiaries ceasing or threatening to cease to carry on its business or a material part thereof taken as a whole, the Company or any of its subsidiaries being unable to fulfill any of its obligations regarding financial indebtedness or the initiation of proceedings and other arrangements with creditors including those in respect of bankruptcy or insolvency, any prolonged suspension of trading of the Shares on the Stock Exchange, if it shall become unlawful for the Company to perform its obligations under the Sale and Purchase Agreement, any litigation, arbitration, prosecution or other legal proceedings (whether threatened or otherwise) outstanding against the Company or any of its subsidiaries which may have a significant financial impact on the Group and/or may have a material adverse effect on the operations or the financial position of the Group taken as a whole, and any material misrepresentation or breach of warranty made by the Company in respect of the Sale and Purchase Agreement), the holder(s) of the New Bonds shall be entitled to demand repayment of the relevant New Bonds.
Listing	:	No application will be made for the listing of the New Bonds on the Stock Exchange or any other stock exchange.

Public float	:	The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with. It will be a term of the New Bonds that the holder(s) of the New Bonds shall not exercise any of the conversion rights attaching to the New Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

A.3 Impact on the shareholding structure of the company

As at the Latest Practicable Date, BEHL is interested in 756,120,000 Shares, representing approximately 50.396% of the issued shares of the Company.

As at the Latest Practicable Date, there are existing outstanding bonds in the aggregate principal amount of HK$791,000,000 (the "**Outstanding Bonds**") issued by the Company to Idata, a wholly-owned subsidiary of BEHL, pursuant to the terms and conditions of the Subscription Agreement. The conversion rights attaching to all of the Outstanding Bonds are currently exercisable provided that following such exercise, the Company's public float can be maintained. Assuming the conversion rights attaching to the Outstanding Bonds are exercised in full at the conversion price of HK$1.13 per Share as stipulated thereunder, an aggregate of 700,000,000 Shares (the "**Outstanding Conversion Shares**") would fall to be allotted and issued by the Company.

Upon exercise in full of the conversion rights attaching to the New Bonds at the Initial Conversion Price of HK$1.13 per New Conversion Share, an aggregate of 1,948,938,053 New Conversion Shares would fall to be allotted and issued by the Company.

In order to maintain a minimum of 25% public float and in light of the restrictions for the exercise of the conversion rights attaching to the Outstanding Bonds and the New Bonds as set out above, the Company understands that BEHL will not exercise any of the conversion rights attaching to the Outstanding Bonds and the New Bonds in the near future. The issue of the New Conversion Shares will not result in a change of control in the Company.

For illustrative purposes only, assuming there being no other changes to the shareholding structure of the Company other than the issue of the Outstanding Conversion Shares and the New Conversion Shares, the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after the issue of the Outstanding Conversion Shares upon full conversion of the Outstanding Bonds but before the issue of the New Conversion Shares upon full conversion of the New Bonds; and (c) immediately after the issue of the Outstanding Conversion Shares upon full conversion of the Outstanding Bonds and the issue of the New Conversion Shares upon full conversion of the New Bonds are as follows:

Shareholders	**As at the Latest Practicable Date**		**Immediately after issue of the Outstanding Conversion Shares upon full conversion of the Outstanding Bonds but before the issue of the New Conversion Shares upon full conversion of the New Bonds** *(Note 4)*		**Immediately after issue of the Outstanding Conversion Shares upon full conversion of the Outstanding Bonds and after the issue of the New Conversion Shares upon full conversion of the New Bonds** *(Note 4)*	
	Number of Shares	*Approximate percentage of shareholdings*	*Number of Shares*	*Approximate percentage of shareholdings*	*Number of Shares*	*Approximate percentage of shareholdings*
BEHL (and its nominee) *(Note 1)*	756,120,000	50.396%	1,456,120,000	66.176%	3,405,058,053	82.063%
Directors of the Company:						
E Meng	601,000	0.040%	601,000	0.027%	601,000	0.014%
Mr. Ng Kong Fat, Brian	10,392,755	0.693%	10,392,755	0.472%	10,392,755	0.250%
Khazanah Nasional Berhad	347,000,000	23.128%	347,000,000	15.770%	347,000,000	8.363%
Other Public Shareholders	386,246,395	25.744%	386,246,395	17.554% *(Note 2)*	386,246,395	9.309% *(Note 2)*
Total Shares in issue	**1,500,360,150**	**100%**	**2,200,360,150**	**100%**	**4,149,298,203**	**100%**

Notes:

1. The interest disclosed includes (i) 17,445,000 Shares owned by BEHL; and (ii) 738,675,000 Shares owned by Idata, a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.

2. For illustrative purposes only. Under the terms of the Outstanding Bonds and the New Bonds, the BEHL Group shall not exercise any of the conversion rights attaching to such bonds if, following such exercise, minimum public float cannot be maintained.

3. The shareholding figures above may not add up to 100 due to rounding to 3 decimal places.

4. The shareholding figures above are based on the assumption that there will be no change in the conversion price of the Outstanding Bonds or the New Bonds.

A.4 Application for listing

An application will be made by the Company for the listing of, and permission to deal in, the New Conversion Shares.

B. BACKGROUND OF THE ACQUISITION

B.1 The Group's strategic transformation

Since 2011, the Group has committed to commence strategic transformation to restructure its existing business into the environmental protection and solid waste treatment industry, with a focus on waste incineration-power generation. The Company believes that the waste incineration-power generation of the environmental protection and solid waste treatment industry is a market with vast prospects, delivers good social efficiency, provides stable cash flow and is suitable for entry and investment by enterprises with a governmental background. Accordingly, the Company has been looking forward to new development opportunities in the solid waste treatment business, and has been committed to implement this strategic transformation. The Directors consider that such strategic transformation and development will fundamentally improve the Group's financial performance and maximise return to the Company and its Shareholders in the long run.

B.2 Overview of solid waste treatment and Waste-to-Energy industry in China

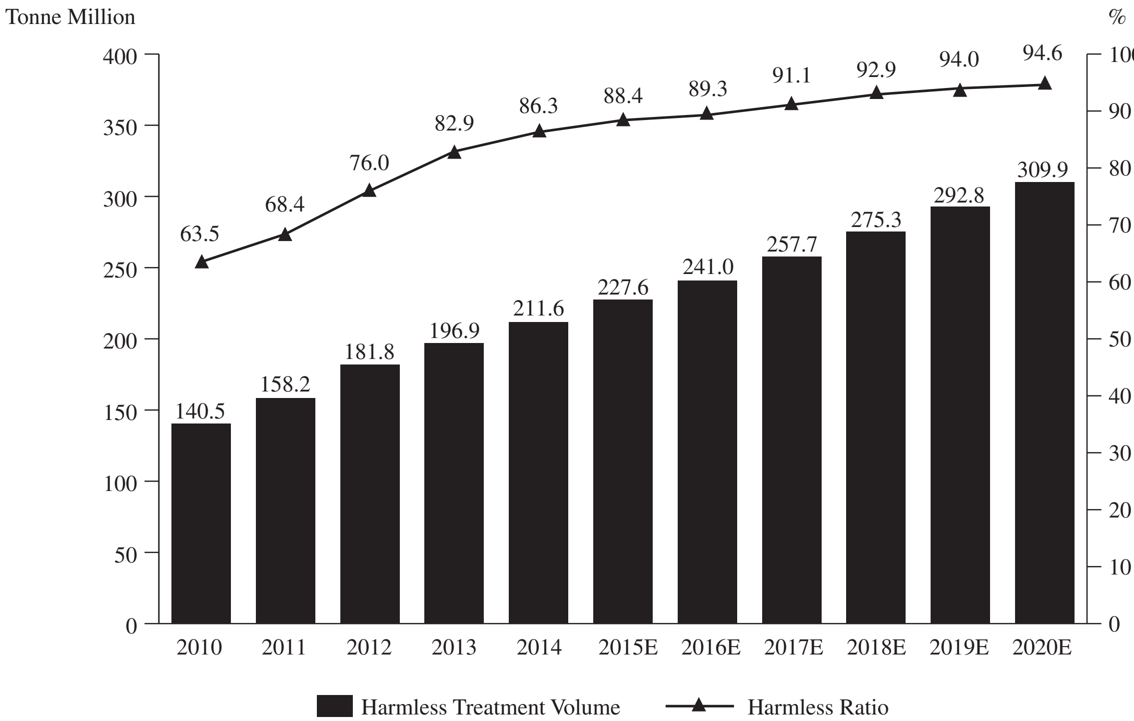
(I) Overview of solid waste treatment Industry in China

Harmless Treatment of Municipal Solid Waste (MSW) in China

Harmless treatment is to eliminate the environmental damage of MSW.

The volume of MSW treatment increased from 140.5 million tonnes in 2010 to 227.6 million tonnes in 2015, registering a CAGR of 10.1%. The harmless ratio increased from 63.5% to 88.4% in the same period with significant improvement in the town level. In order to improve the living conditions for urban residents, China's central government has been encouraging the development of MSW harmless treatment, stimulating construction of MSW treatment facilities. The treatment volume is expected to grow to 309.9 million tonnes in 2020, with the harmless treatment ratio growing to 94.6%.

Volume of MSW Harmless Treatment, China, 2010-2020E



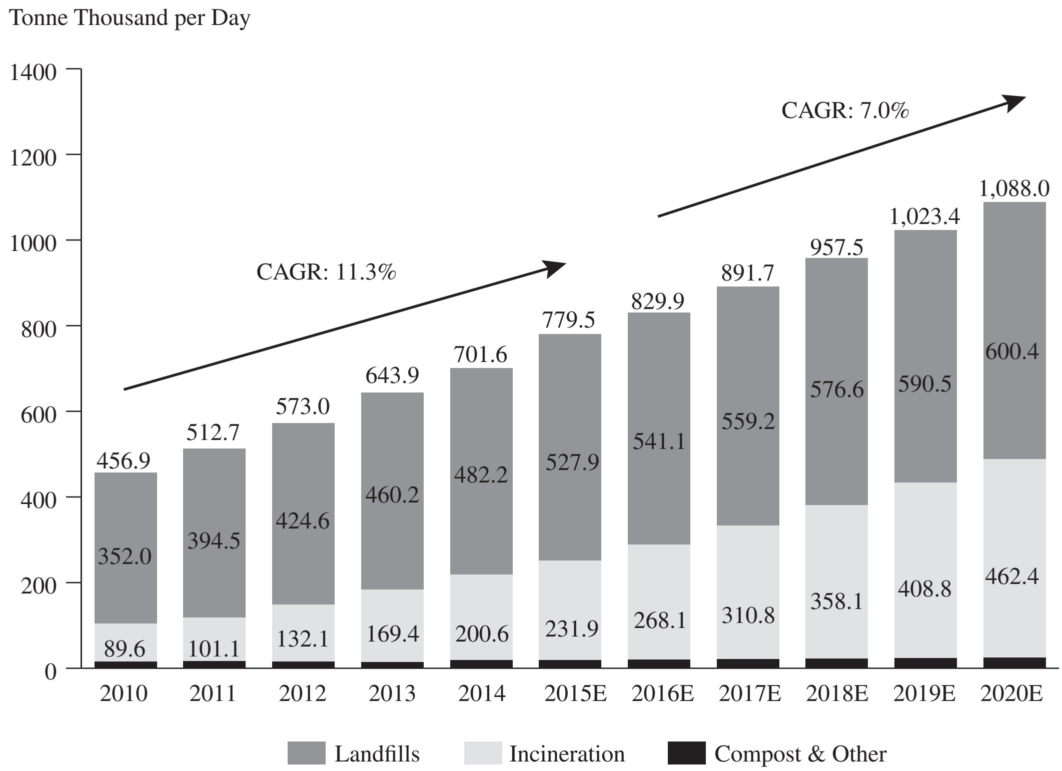
Source: Ministry of Housing and Urban-Rural Development and Frost & Sullivan

Harmless Treatment Capacity in China

With increasing environmental awareness and ongoing investment in infrastructural construction, harmless treatment capacity has witnessed a fast growth from 456.9 thousand tonnes per day in 2010 to 779.5 thousand tonnes per day in 2015. The treatment capacity is expected to grow to 1,088.0 thousand tonnes per day in 2020, with a CAGR of 7.0% from 2016 to 2020.

In China, landfill is most widely adopted method for MSW harmless treatment and accounted for 67.7% of total treatment capacity in 2015. The proportion of incineration has been rising stably during the past 5 years, from less than 20% in 2010 to nearly 30% in 2015. This proportion falls short of the target of 35% in the 12th FYP and is expected to increase further during 2016 to 2020. The treatment capacity for incineration is expected to grow at a CAGR of 14.6% from 2016 to 2020.

MSW Harmless Treatment Capacity by Methods, China, 2010-2020E



Source: Ministry of Housing and Urban-Rural Development and Frost & Sullivan

Market Drivers of Solid Waste Treatment Industry in China

- <u>Rising Urbanisation.</u> A wide gap between the demand for MSW treatment and the capacity of MSW treatment facilities is created as the generation of solid waste has outpaced the construction of treatment facilities as a result of rapid urbanisation and rising living standards. The gap will continue to exist, contributing to the development of MSW treatment market.

- <u>Favourable Regulatory Environment.</u> During the 12th FYP period, the central and local government has demonstrated determination and support for construction of MSW treatment facilities. In the 13th FYP, the government plans to accelerate the construction of MSW treatment facilities. With rising public awareness, the favourable regulatory environment will continue, encouraging the investment in MSW treatment industry.

- Improvement of MSW Collection and Transportation. While the collection system of MSW in China's cities is well developed, there is still a large room for improvement of solid waste collection and transportation in towns and villages. Solid waste collection and transportation system is likely to extend to town and village level in the next 5 years, leading to increasing volume of solid waste to be treated. In addition, progress in separation and classification of solid waste in the collection and transportation system will improve the efficiency of solid waste treatment.

- Investment in Environmental Protection Industry. With rising public concern about the environment, the energy saving and environmental protection industry has been selected as an emerging pillar industry of China's economy. As a crucial part of the environmental industry, the MSW treatment industry will attract investors from public and private sector, expediting the industry growth.

Market Trends of Solid Waste Treatment Industry in China

- Growing Demand for Treatment Capacity. Solid waste treatment industry is still in its growing stage and will attract heavy investment from both government and private capital.

- Increasing Proportion of Incineration Treatment. Incineration treatment of MSW is expected to be adopted more widely in the future attributable to its advantage in large treatment capacity and limited land usage, which is an intensifying issue as land resource is increasingly scarce. In addition, advancing level of industrialisation and improving living standards are expected to generate high quality household waste with high heat values that is more suitable for combustion.

- Rising Standard on Pollution Control. Considering its large environmental impact, the MSW treatment industry attracts intensive regulatory attention. The rising standards on pollution and emission control will increase the entry barrier and force existing players to improve operational efficiency.

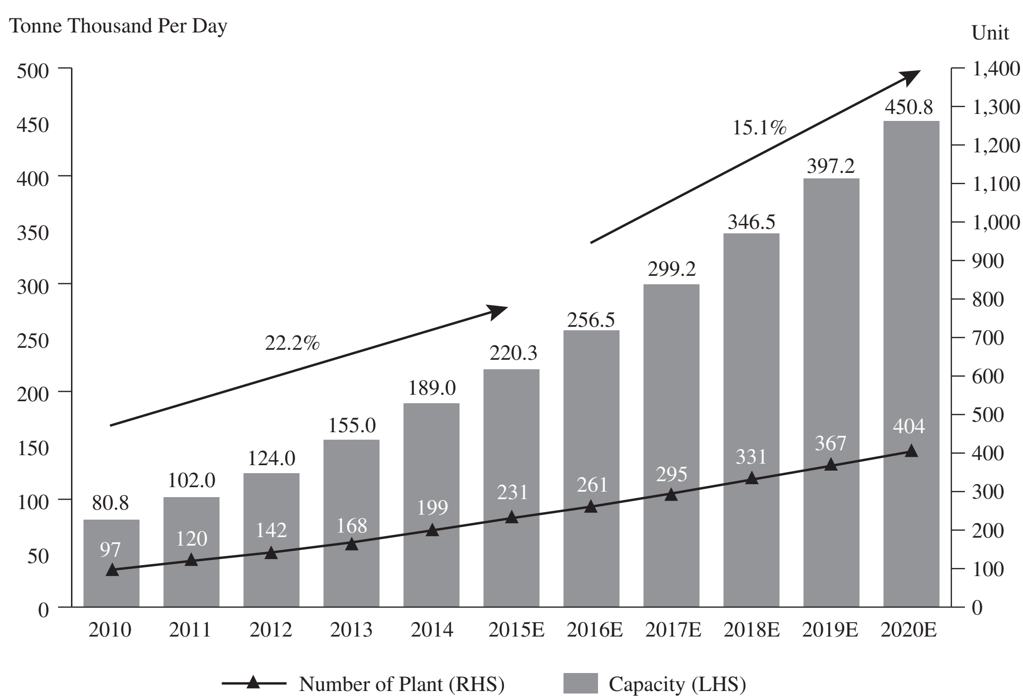
- Comprehensive Utilisation. As a model for comprehensive utilisation of waste, venous industry park has advantage in higher efficiency of waste treatment and saving of space and investment and is gradually adopted. Integrating different facilities in one industrial park can achieve comprehensive utilisation of waste by using end product or by-product of one facility as raw material for another and allocating most suitable treatment method for municipal waste which has a wide range of contents.

(II) Overview of China's Waste-To-Energy (WTE) Market

Treatment Capacity of WTE Plants in China

Waste-to-Energy (WTE) plants generate electricity through the direct incineration of MSW. The number of WTE plants reached 231 as at the end of 2015. The treatment capacity of WTE plants totalled 220.3 thousand tonnes per day as at the end of 2015, increasing from 80.8 thousand tonnes per day in 2010, representing a CAGR of 22.2% from 2010 to 2015. In order to alleviate the predicament of "besieged by garbage" in many cities and achieve the target for MSW incineration capacity, favorable policies have been issued to encourage the construction of WTE plants. As the favorable regulatory environment for WTE plants is expected to continue, the number and total capacity of WTE plants are predicted to continue growing at a fast pace. The treatment capacity of WTE plants will increase to 450.8 thousand tonnes per day at the end of 2020, with a CAGR of 15.1% from 2016 to 2020.

Total Treatment Capacity of WTE Plants in operation, China, 2010-2020E



Source: Frost & Sullivan

Market Drivers of China's WTE Industry

- Rapid Urbanisation Process. Urbanisation has been a primary driver of solid waste treatment industry as per capita waste disposal is significantly higher in urban areas than in rural areas. With the rapid urbanisation process, newly immigrated residents are expected to produce more solid waste due the increase in their disposable income, which is expected to increase the overall quantity of MSW. As an efficient method for solid waste treatment, WTE industry will benefit from the increasing volume of solid waste.

- Favourable Policy Support. Incineration method has received the government support for MSW treatment. In the 13th FYP, the central government plans to continue to increase the penetration of incineration in MSW treatment.

- Advance in WTE Technology. Both the grate incinerator technology and circulated fluidized bed technology are widely used in China's WTE industry and, with the further technological improvement and maturity, WTE plants are expected to be more cost-efficient, have better performance, less environmental impact, and better treatment in flue gas and ash, etc. Technology innovation are continuously driving the growth of China's WTE industry in the future.

- Scarcity of Land. Land price has been steadily increasing in many regions in China, leading to growing landfill shortages. Also, the potential environmental risk of landfills on the land resource undermines its popularity. As a result, incineration treatment is gaining popularity in China as a viable harmless waste treatment solution that could considerably reduce waste volume and save land space.

Entry Barriers of China's WTE Industry

- Operational and Management Expertise. The incineration and power generation in WTE plants is a complicated process and numerous factors are under consideration for smooth operation. The success and profitability of a WTE plant is highly reliant on the management team's experience in project selection, plant and financing to construction, testing and operation, as well as assuring the highest levels of business efficiency and regulatory compliance.

- Capital Barrier. A large initial investment is required for a WTE plant. A WTE plant with a daily treatment capacity of 1,000 tonnes typically requires an initial investment of RMB300-800 million. In addition, WTE projects usually have a long payback period, ranging from 5 to 10 years. The high capital commitment requires industry participants to have substantial capital strength and financing ability.

- Effective Relationship Government. Investment and operation of WTE projects require various approvals from different departments of the local government. According to " Municipal Utilities Special Permit Management Approach" regulation issued by the PRC Ministry of Construction, investment in WTE projects requires a project concession right. After obtaining the special operation concession, WTE projects must obtain approvals from local development and reform commission, local environment protection authority and local electricity authority, etc. Therefore, effective government relationship is crucial for WTE enterprises.

- Technical Barrier. Comparing with MSW in developed countries, MSW in China generally has a high level of water and non-combustible material with low calorific value. Imported foreign technology without proper improvement is not expected to be suitable for China's municipal waste. Investment in the technologies to develop more effective or cost efficient WTE plant that is suitable for China's municipal solid waste is critical.

B.3 Review of the Group's strategic transformation

In order to implement the business restructuring, in 2012, the Company arranged financing from BEHL and obtained a large amount of financial support to develop its solid waste treatment business. Please refer to the Company's circular dated 21 December 2012 (the "**2012 Circular**"), whereby it was disclosed that Idata, a wholly-owned subsidiary of BEHL, has agreed to subscribe for shares in the Company, the Firm Bonds (as defined in the 2012 Circular) and the Standby Bonds (as defined in the 2012 Circular) at an aggregate consideration of approximately HK$3.5 billion, and the funds shall be used for investment in environmental protection and solid waste treatment business. This reflected BEHL's approval and support of the Company's business restructuring, and the Company has since then launched the first step of its business restructuring.

During the year of 2012, the Company entered into the Increase of Capital Contract with the Original Shareholders for the acquisition of 50% interests in the Haidian Project. The Increase of Capital Contract was later superseded by a joint venture master agreement entered into between BDEP (Haidian) and 北京綠海能環保有限責任公司 (Beijing Lvhaineng Environmental Protection Co., Ltd.*) on 4 September 2014, whereby the Group's interests in the Haidian Project was increased to 99%. By the end of December 2014, the Group successfully entered into a licensed operation agreement in relation to the Haidian Project.

During the year of 2014, the Group also acquired the Changde Household Waste Incineration Power Generation Project (常德市生活垃圾焚燒發電項目) in Changde, Hunan Province and the Taian Household Waste Incineration Power Generation Project (泰安生活垃圾焚燒發電項目) in Taian, Shandong Province.

As another part of the strategic transformation, in 2011 and 2014, the Group entered into agreements for the disposal of its 43% interests in Beijing Municipal Administrative & Communications Card co., Ltd. (北京市政交通一卡通有限公司) ("**BMACC**") (a company principally engaged in the production, issuance, settlement services and management of a municipal administration and communications card and its related equipment) and its 72% interests in B E Information Technology Group Limited ("**BEITG Group**") (an investment holding company holding subsidiaries which are principally engaged in system integration, provision of IT technical support, consultation services and total education solution) to focus on its solid waste treatment business. For further details of the disposals, please refer to the circulars of the Company dated 30 May 2011 and 23 April 2015, respectively. The disposal of 43% equity interest in BMACC and 72% equity interest in BEITG Group was completed in October 2011 and March 2016, respectively.

After completion of the aforesaid transactions, the Company's strategic transformation had achieved some results and its major sources of income from its principal business and profit in 2015 were derived from solid waste treatment business. The Company is also actively identifying investment opportunities relating to its principal business to tamp the strategic transformation.

C. INFORMATION ON THE TARGET GROUP AND THE TARGET PROJECTS

The Target Projects comprises (i) five household waste incineration projects, which are operated by (a) GSWM via its subsidiaries, Gaoantun WTE and Zhangjiagang WTE; (b) Ha'erbin Shuangqi; (c) Beikong Shuyang; and (d) Beikong Wenchang; and (ii) one hazardous waste and medical waste treatment project operated by Hunan Hengxing. Details of the Target Projects are as follows:

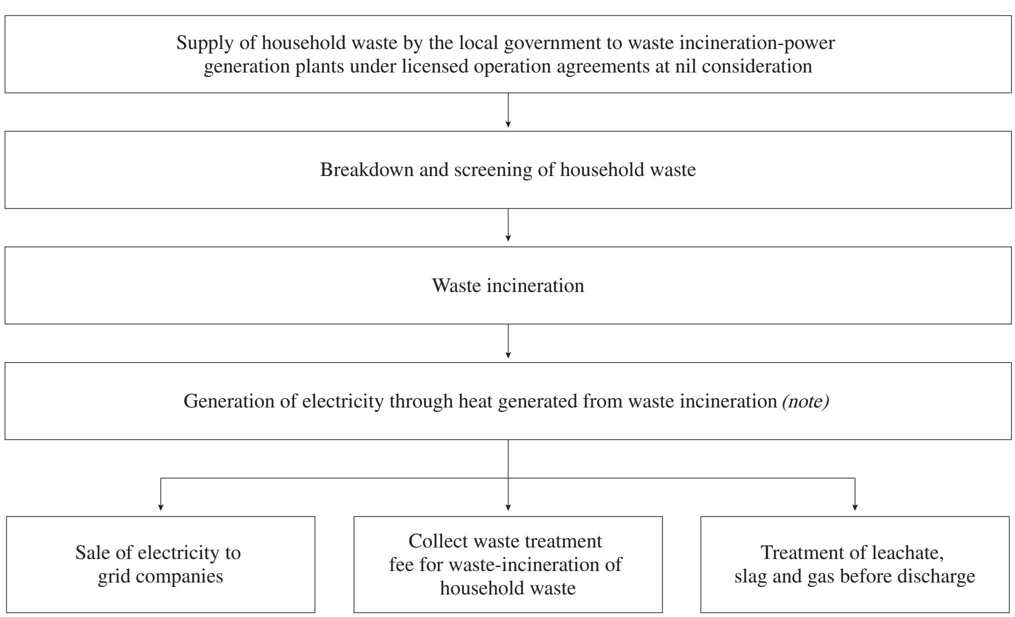
C.1 Business Model and the Operational Information on Household Waste Incineration Projects

(i) Business model

Each of the Target Household Waste Companies has entered into a concession agreement in respect of its household waste incineration project with the relevant local governmental authority, pursuant to which the relevant Target Household Waste Company has obtained rights to operate the relevant project facilities of the Household Waste Treatment Projects for the treatment of household waste. The Target Household Waste Companies generate income by (i) the collection of waste treatment fees for waste-incineration treatment of household waste, and (ii) the collection of on-grid tariffs from the sale of waste-generated electricity to grid companies.

(ii) Operation flow

A simplified flow chart illustrating the operation flow of the Household Waste Treatment Projects is set out below:



Note: In the incineration process, heat generated from combustion will provide energy to the steam turbine-generator units for electricity generation.

(iii) Technology

Each of Gaoantun WTE, Zhangjiagang WTE, Ha'erbin Shuangqi phase II, Beikong Shuyang and Beikong Wenchang adopts grate furnace technology in its operation. Ha'erbin Shuangqi phase I adopts fluidized bed technology in its operation.

According to the industry report by Frost & Sullivan, a WTE plant, is one of two ways to utilise the energy from solid waste. WTE plants generate electricity or heat through the incineration of solid waste. Grate furnaces are currently mainstream technology that are used for waste incineration in China. In a moving grate furnace, the fuel enters on top of the grating and when transported over the grating the fuel dries, pyrolysis and combusts before the ash is gathered at the bottom. Air is added both primarily, from under the grating, and secondarily, from above the fuel, all for a better turbulence and contact between the combustion gas and oxygen.

(iv) Target companies operating Household Waste Treatment Projects

GSWM

GSWM is incorporated under the laws of the Cayman Islands on 30 September 2005 and is an investment holding company. As at the date of the Sale and Purchase Agreement, GSWM holds (i) a 84.90% equity interest of Gaoantun WTE; and (ii) the 100% equity interest of Zhangjiagang WTE.

Gaoantun WTE

Gaoantun WTE is established under the laws of the PRC on 26 May 2003 and is indirectly owned as to 84.9% by BEHL. The principal activity of Gaoantun WTE is the investment in, and operation of, 北京高安屯垃圾焚燒項目 (Beijing Gaoantun Waste-To-Energy Project) (the "**Gaoantun WTE Project**") located in Gaoantun district of Beijing of the PRC.

BEHL first acquired the Gaoantun WTE Project in December, 2014. The Gaoantun WTE Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from January 2005 and ending in December 2034. It uses grate furnace technology and has household waste treatment capacity of 1,600 tonnes/day. The Gaoantun WTE Project commenced operations in April 2009.

Zhangjiagang WTE

Zhangjiagang WTE is established under the laws of the PRC on 9 November 2005 and is indirectly wholly-owned by BEHL. The principal activity of Zhangjiagang WTE is the investment in, and operation of, 張家港市生活垃圾焚燒發電廠項目 (Zhangjiagang Household Waste-To-Energy Plant Project) (the "**Zhangjiagang WTE Project**") located in Zhangjiagang of Suzhou, Jiangsu Province of the PRC.

BEHL first acquired the Zhangjiagang WTE Project on December 2014. The Zhangjiagang WTE Project is a household waste incineration project operated on a Build-Own-Operate ("**BOO**") basis for a licensed period of 30 years commencing from 2008 and ending in 2038 for phase I of Zhangjiagang WTE Project and 30 years commencing from 2014 and ending in 2044 for phase II of Zhangjiagang WTE Project. It uses grate furnace technology and phase I of Zhangjiagang WTE Project has household waste treatment capacity of 600 tonnes/day while phase II of Zhangjiagang WTE Project has household waste treatment capacity of 300 tonnes/day. The phase I of Zhangjiagang WTE Project commenced trial operations in February 2010 and phase II of Zhangjiagang WTE Project commenced trial operation in February 2016.

Ha'erbin Shuangqi

Ha'erbin Shuangqi is established under the laws of the PRC on 9 July 2004 and is indirectly owned as to 80% by BEHL. The principal activity of Ha'erbin Shuangqi is the investment in, and operation of, 哈爾濱雙琦垃圾焚燒發電BOT項目 (Ha'erbin Shuangqi Waste-To-Energy BOT Project) (the "**Ha'erbin Shuangqi Project**") in Ha'erbin, Heilongjiang Province of the PRC.

BEHL first acquired the Ha'erbin Shuangqi Project in November 2012. The Ha'erbin Shuangqi Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from April 2013 and ending in April 2043. It has household waste treatment capacity of 1,600 tonnes/day comprising 400 tonnes/day for phase I and 1,200 tonnes/day for phase II. Of which, the phase I project uses fluidised bed technology and has commenced operations in May 2014, while the phase II project uses grate furnace technology and is under construction, which is expected to commence trial operations in 2016.

Beikong Shuyang

Beikong Shuyang is established under the laws of the PRC on 11 April 2012 and is indirectly wholly-owned by BEHL. The principal activity of Beikong Shuyang is the investment in, and operation of, 江蘇省沭陽縣垃圾焚燒發電廠項目 (Jiangsu Shuyang Waste-To-Energy Plant Project) (the "**Beikong Shuyang Project**") in Shuyang county, Jiangsu Province of the PRC.

BEHL first invested in the Beikong Shuyang Project on April 2012. The Beikong Shuyang Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from March 2015 and ending in March 2045. It uses grate furnace technology and has household waste treatment capacity of 600 tonnes/day. The Beikong Shuyang Project commenced trial operations in January 2015.

Beikong Wenchang

Beikong Wenchang is established under the laws of the PRC on 24 February 2010 and is indirectly wholly-owned by BEHL. The principal activity of Beikong Wenchang is the investment in, and operation of, 文昌市生活垃圾焚燒發電廠BOT項目 (Wenchang Household Waste-To-Energy Plant BOT Project) (the "**Beikong Wenchang Project**") located in Wenchang, Hainan Province of the PRC.

BEHL first invested in the Beikong Wenchang Project in February 2010. The Beikong Wenchang Project is a household waste incineration project operated on a BOT basis for a licensed period of 15 years commencing from July 2012 and ending in June 2027. It uses grate furnace technology and has household waste treatment capacity of 225 tonnes/day. The Beikong Wenchang Project commenced trial operations in July 2012.

(v) Operational figures of Household Waste Treatment Projects

Capacity

For the year 2015, the maximum capacity of each of the Household Waste Treatment Projects are summarised as follows:

		Operation Commencement Date	Maximum daily capacity for the treatment of household waste	Maximum daily electricity capacity
Gaoantun WTE Project		April 2009	1,843 tonnes	756,200 kWh
Zhangjiagang WTE Project	Phase I	February 2010*	971 tonnes	303,108 kWh
	Phase II	February 2016*	–	–
Ha'erbin Shuangqi Project	Phase I	May 2014	734 tonnes	244,380 kWh
	Phase II *(Note)*	2016	1,200 tonnes	–
Beikong Shuyang Project		January 2015*	833 tonnes	230,400 kWh
Beikong Wenchang Project		July 2012*	326 tonnes	85,700 kWh

Note: Phase II of Ha'erbin Shuangqi Project has not commenced operation as at the date of this circular. It is expected to commence trial operations in 2016.

* *Trial operation commencement date.*

Revenue model

The revenue model of each Household Waste Treatment Project is summarised as follows:

	Waste treatment fee	**On-grid tariff**
Gaoantun WTE Project	RMB 150 per tonne*	RMB0.65 per kWh
Zhangjiagang WTE Project	RMB97 per tonne	RMB0.65 per kWh
Ha'erbin Shuangqi Project	RMB73 per tonne	RMB0.65 per kWh
Beikong Shuyang Project	RMB58.8 per tonne	RMB0.65 per kWh
Beikong Wenchang Project	RMB93.8 per tonne	RMB0.65 per kWh

* *Based on the daily treatment capacity of Gaoantun WTE Project, the unit price of waste treatment service shall be RMB150.0 per tonne for the volume less than 1,600 tonnes per day, RMB82.5 per tonne for that ranging from 1,600 to 1,760 tonnes per day, and RMB52.5 per tonne for that more than 1,760 tonnes per day.*

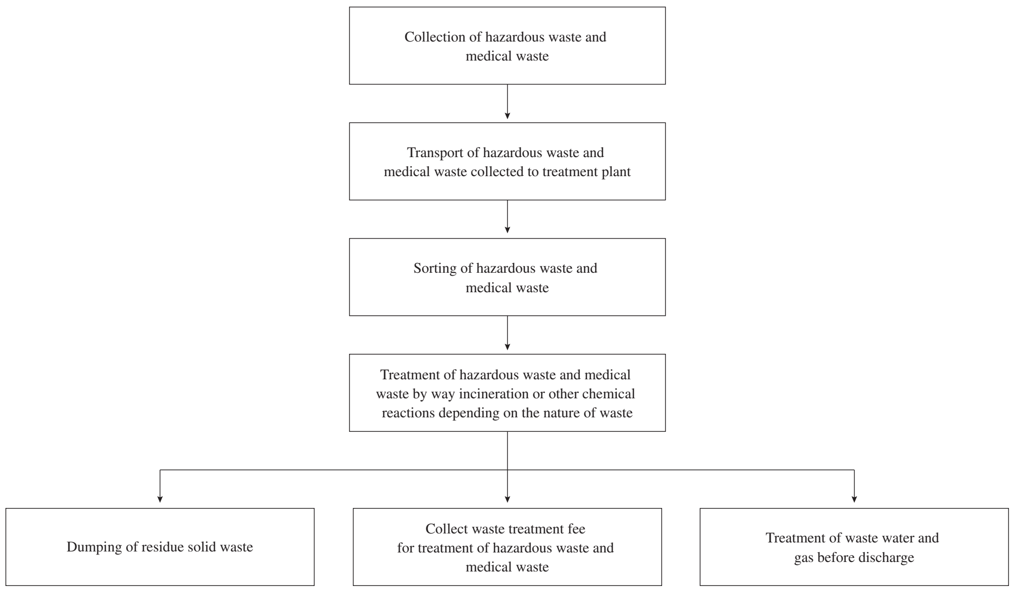
C.2 Business Model and Operational Information on the Hazardous Waste and Medical Waste Treatment Projects

(i) Business model

The Target Hazardous Waste and Medical Waste Company has obtained requisite operation permit(s) from the Hunan local governmental authority for rights to operate the relevant project facilities and to handle hazardous waste and medical waste within a specified area. The Target Hazardous Waste and Medical Waste Company has also entered into treatment agreements with organisations that generates hazardous waste and medical waste and collects waste treatment fees for treatment of hazardous waste and medical waste.

(ii) Operation flow

A simplified flow chart illustrating the operation flow of the Hazardous Waste and Medical Waste Treatment Project is set out below:



(iii) Technology

According to the industry report by Frost & Sullivan, there are two major final treatment methods towards hazardous waste in China, known as resource utilisation and disposal. Before final treatment, hazardous waste needs to be treated with several kinds of pre-treatment methods according to its nature, such as physical/chemical method and solidification/stabilization method.

Resource utilisation aims to recycle, extract and sell some valuable resources, such as metal, from the hazardous waste. Disposal methods are mainly used on useless waste and waste on which no other proper treatment methods can be used up to now. Its purpose is to realize harmless treatment, and eliminate or reduce the toxicity of the hazardous waste so that it is as harmless to the environment as possible. Landfill disposal and incineration are the two most common disposal methods.

(iv) Target Group company operating Hazardous Waste and Medical Waste Treatment Projects

Hunan Hengxing

Hunan Hengxing is established under the laws of the PRC on 23 February 2006 and is indirectly owned as to 65% by BEHL. The principal activity of Hunan Hengxing is the investment in, and operation of, 湖南省衡陽危險廢物處置中心項目 (Hunan Hengyang Hazardous Waste Treatment Project) (the "**Hunan Hengxing Project**") located in Hengxing, Hunan Province of the PRC.

BEHL first acquired the Hunan Hengxing Project in August 2009. The Hunan Hengxing Project is a hazardous waste and medical waste treatment project operated on a BOT basis for a licensed period of 25 years commencing from the date of completion of final acceptance of the construction of the plant. The Hunan Hengxing Project has a hazardous waste and medical waste treatment capacity of 35,000 tonnes/year, including waste containing copper such as copper sulphate of 6,000 tonnes/year, acidic-alkali waste and emulsifying liquid waste of 6,000 tonnes/year, and heavy metal sludge of 18,000 tonnes/year. The Hunan Hengxing Project commenced trial operations in May 2013.

C.3 Financial information on the Target Group

Below is certain financial information on the Target Group for the two financial years ended 31 December 2014 and 2015, which is extracted from the audited consolidated financial statements of each member of it as set out in Appendix III of this circular:

GSWM

	For the year ended 31 December 2015 *(RMB'000)*	**For the year ended 31 December 2014** *(RMB'000)*
Net profit before taxation	68,029	43,516
Net profit after taxation	50,011	27,814

Ha'erbin Shuangqi

	For the year ended 31 December 2015 *(RMB'000)*	For the year ended 31 December 2014 *(RMB'000)*
Net profit before taxation	28,471	45,025
Net profit after taxation	21,331	32,917

Beikong Shuyang

	For the year ended 31 December 2015 *(RMB'000)*	For the year ended 31 December 2014 *(RMB'000)*
Net profit before taxation	6,766	51,411
Net profit after taxation	5,887	38,662

Beikong Wenchang

	For the year ended 31 December 2015 *(RMB'000)*	For the year ended 31 December 2014 *(RMB'000)*
Net profit/(loss) before taxation	848	(1,426)
Net profit/(loss) after taxation	528	(1,027)

Beikong Wenchang suffered a net loss for the year ended 31 December 2014 due to (i) a low gross profit margin of 15.51% in 2014 as compared with 28.42% in 2015; (ii) a relatively high administrative expense to revenue ratio of 16.36% as compared with 13.67% in 2015; and (iii) a higher finance costs to revenue ratio of 10.85% as compared to 8.64% in 2015. For detailed year on year changes, please refer to "Information about the Target Group – 6. Management Discussion and Analysis" set out in Appendix I to this circular.

Hunan Hengxing

	For the year ended 31 December 2015 *(RMB'000)*	For the year ended 31 December 2014 *(RMB'000)*
Net profit before taxation	9,536	6,207
Net profit after taxation	9,170	5,858

The total net asset value of the Target Group as at 31 December 2015 was approximately RMB1,132,971,000 (equivalent to approximately HK$1,365,024,000).

The original acquisition costs of Hunan Hengxing and Ha'erbin Shuangqi are approximately RMB24,759,000 and RMB192,000,000, respectively; and the initial investment costs of Beikong Wenchang and Beikong Shuyang are approximately RMB20,000,000 and RMB85,190,000, respectively. There is no specific original costs assigned to Gaoantun WTE and Zhangjiagang WTE by BEHL, as these companies are part of the acquired asset portfolio. The aggregate estimated acquisition costs of Gaoantun WTE and Zhangjiagang WTE are approximately RMB 1.84 billion. The total aggregate amount of such acquisition or investment costs (including any estimated acquisition costs), as applicable, are RMB2,162 million.

Please refer to Appendix I for further information regarding the Target Group and the household waste treatment business and hazardous waste and medical waste treatment business carried out by the Target Group. Please also refer to Appendices IIIA to IIIE and Appendix I.6 for the audited financial statements of the Target Companies and management discussion and analysis of the Target Group, respectively.

D. REASONS FOR THE ACQUISITION AND IMPACT ON THE GROUP

D.1 Reasons for and benefits of the Acquisition

The Board considers that the Acquisition is crucial for the Company to carry out its overall strategic plan under which the Company placed its focus on solid waste treatment business. At the end of 2014, through strategic transformation, the Company acquired two household waste incineration power generation projects which were in operation in Taian, Shandong Province and Changde, Hunan Province with a total waste treatment capacity of 1,800 tonnes/day. In addition, at the end of December 2014, the Company entered into a licensed operation agreement in relation to the signatory waste incineration power generation project in Haidian District, Beijing with a waste treatment capacity of 2,500 tonnes/day. The Haidian Project is expected to commence operations by the end of 2016. In aggregate, the waste treatment capacity of the aforesaid three projects was 4,300 tonnes/day.

In order to enhance the development of solid waste treatment business, widen the source of income and improve the overall financial results of the Company so as to provide stable cash flow, the Board has been seeking for merger and acquisition opportunities in solid waste treatment industry with a view to solidify the position of the Company in solid waste treatment industry, capturing larger market share and achieving “economies of scale”.

The solid waste treatment market is huge and promising, which generate social benefits together with stable cash flow. Since the industry chain and the production chain of this industry involves many governmental departments, state-owned enterprises would have an advantage in this industry.

The Target Projects are located in major cities or provincial capitals of the PRC. The Target Projects have a track record of grate furnace technology, which is a widely-used technology in the waste-to-energy industry, and a team of experienced operation team which could promote rapid development of the Group’s existing solid waste treatment business.

The Acquisition is in line with the Company’s business strategy of focusing on solid waste treatment business. In light of the premium quality of the target assets, the Acquisition is a valuable opportunity to improve the Company’s revenue and benefits, and also accords with the Company’s strategic intent to develop into a flagship platform conducting solid waste treatment business under BEGCL, and will significantly increase the scale of business of the Company and the value of its shareholders accordingly. Going forward, it is the strategy of the Company to further expand into the WTE sector and the Group would seek for potential investment and acquisition opportunities to enrich its existing business portfolio.

It is expected that the Acquisition will improve the performance of business and results of the Company in the following respects:

(i) Given the lack of disposals of large scale solid waste treatment projects in the industry, the Acquisition is a rare opportunity to expand the scale of business of the Company in the industry

There are limited large scale acquisitions of waste to energy plants in the PRC. Since late 2009 up to the Latest Practicable Date, the Company had only noted three large scale acquisitions having a deal value exceeding US$100 million. The table below sets out particulars of the three completed large scale acquisitions aforesaid:

Time of completion	Name of Acquirer	Target	Stake acquired	Consideration	Description of the acquisition
			(%)	*(US$, million)*	
December 2014	BEHL	GSE Investment Corporation [(1)]	92.68	490.3	GSE Investment Corporation is a holding company of operating companies of various solid waste treatment projects and water treatment projects in the PRC. GSE Investment Corporation held a total of 13 waste and water treatment projects in the PRC. Gaoantun WTE Project and Zhangjiagang WTE Project, which were part of the Target Projects to be acquired by BEHL, were among the three solid waste treatment projects held by GSE Investment Corporation.
December 2014	Grandblue Environment Co Ltd	C&G Environmental Protection (China) Co Ltd [(2)]	100	302.4	C&G Environmental Protection (China) Co Ltd. is a China based holding company of PRC subsidiaries engaged in the investment, construction, operation and management of ten waste incineration power plants in the PRC. The consideration of RMB1.85 billion (equivalent to approximately US$302.4 million), was payable as to RMB1.1 billion by cash and issuing 89,928,057 shares at an issue price of RMB8.34 each.

Time of completion	Name of Acquirer	Target	Stake acquired (%)	Consideration (US$, million)	Description of the acquisition
December 2009	Hembly International Holdings Ltd	Smartview Investment Holdings Ltd [3]	100	149.1	Smartview Investment Holdings Ltd. is an investment holding company which subsidiaries are engaged in the principal business of waste-to-energy projects by which municipal solid wastes would be processed and used for power generation, and has secured interest in waste-to-energy projects in Beijing, Shanghai, Nanchang, Guangzhou, Nanjing and Shenzhen in the PRC. The target group also provides consultancy services in relation to waste-to-energy technology development, design, system integration, project investment, operation and maintenance of waste treatment, especially waste-to-energy projects in the PRC. The consideration of HK$1,155.54 million (equivalent to approximately US$149.1 million) was satisfied the issue of convertible notes and promissory notes.

Source:

(1) http://www.behl.com.hk/en/news/press/p141224.pdf

(2) http://www.cninfo.com.cn/

(3) http://www.hkexnews.hk/

As indicated above, one of the aforesaid three large scale acquisitions were conducted by BEHL, and part of the target assets are the subject of the Target Projects to be acquired by the Group.

Given the limited number of large scale acquisitions in the WTE sector of the PRC, the Acquisition represents a rare opportunity for the Group to expand its scale of business in the WTE industry.

(ii) Expanding the scale of business of the Company and developing the Company into one of the leading companies in solid waste treatment industry in China

Since 2011, the Company had been committed to entering the waste incineration-power generation industry and to becoming a leading company in the solid waste treatment industry. During 2014, the Company has successfully acquired two solid waste treatment projects and entered into a licensed operation agreement for solid waste treatment in Beijing and completed its strategic transformation. In 2015, the Group's major sources of revenue and profit were derived from solid waste treatment business. The Company expects that the Acquisition will be a good opportunity for the Company to operate diversified solid waste treatment projects in a wider region. The table below sets out particulars of the Target Projects to be acquired by the Company pursuant to the Acquisition:

Name of Project	**Location**	**Type of waste and treatment capacity**
Gaoantun WTE Project	Gaoantun, Beijing	Household waste treatment capacity of 1,600 tonnes/day
Zhangjiagang WTE Project	Zhangjiagang of Suzhou, Jiangsu Province	Phase I – Household waste treatment capacity of 600 tonnes/day Phase II – Household waste treatment capacity of 300 tonnes/day
Ha'erbin Shuangqi Project	Ha'erbin, Heilongjiang Province	Phase I – Household waste treatment capacity of 400 tonnes/day Phase II – Household waste treatment capacity of 1,200 tonnes/day
Beikong Shuyang Project	Shuyang county, Jiangsu Province	Household waste treatment capacity of 600 tonnes/day
Beikong Wenchang Project	Wenchang, Hainan Province	Household waste treatment capacity of 225 tonnes/day

Name of Project	Location	Type of waste and treatment capacity
Hunan Hengxing Project	Hangyang, Hunan Province	Hazardous waste and medical waste treatment capacity of 35,000 tonnes/year, including waste containing copper such as copper sulphate of 6,000 tonnes/year, acidic-alkali waste and emulsifying liquid waste of 6,000 tonnes/year, and heavy metal sludge of 18,000 tonnes/year

With the growing demand for energy and improving awareness of sustainable development and environmental protection, the PRC government has paid more attention to issues such as energy and environmental protection. In parallel with the continuous improvement of urban residents' living standards and the continued economic growth in the PRC, it is expected that MSW will increase steadily. The solid waste treatment market is huge and promising.

The Company's current solid waste treatment capacity in operation is approximately 2,008 tonnes/day. In addition, the Haidian Project will commence operations by the end of 2016 and the solid waste treatment capacity is expected to increase to 2,500 tonnes/day plus the maximum solid waste treatment capacity of Target Projects amounting to 5,907 tonnes/day, the solid waste treatment capacity of the Group will reach 10,415 tonnes/day.

The business of Target Group can achieve a synergy with the existing business of the Company. In view of the great support and concern of central and local governments of the PRC (including certain grants and tax preferences and stable on-grid tariffs), the Company believes that the Acquisition will not only result in an upgraded scale of business, but will also help the Company to establish its leading position in the market.

(iii) Becoming the leading company in solid waste treatment industry in Beijing

The Board considers both the Gaoantun WTE Project and the Haidian Project are high quality projects in China, in particular, the strengths of the Gaoantun WTE Project are as follows:

- the biggest household WTE project in operation in China in terms of one-line waste-incineration treatment capacity
- was recognised as a key auxiliary project for Beijing 2008 Olympics, as well as an environmental education base of Beijing
- was elected as one of the five "AAA Household WTE Plants" in the PRC in 2012
- optimising the design of process configuration. The project was equipped with two sets of 800 tonnes/day moving grate furnaces and two sets of 15MW extraction condensing medium-temperature/medium-pressure steam turbine power generators
- through design optimization, the project only occupies a land of 70 mu, while a project with a comparable capacity in the PRC generally occupies a land of about 120 mu

The Board considers both the Haidian Project and the Gaoantun WTE Project are high quality and representative projects in Beijing. The treatment capacity of the Gaoantun WTE Project is 1,600 tonnes/day, and taking into consideration that the Haidian Project will commence operation by the end of 2016, the solid waste treatment capacity of the Company in Beijing will amount to 4,100 tonnes/day. The implementation of the Haidian Project will help to change the imbalanced waste treatment mix in Beijing and Haidian District; while, as set out above, the Gaoantun WTE Project is one of the biggest BOT municipal solid waste incineration plants in operation in China, and also one of the five solid waste incineration plants with "AAA" rating in the PRC as elected in the Innocuousness Rating List of Municipal Household Waste Landfill and Incineration Plant in 2012 (《2012年城市生活垃圾填埋場和焚燒廠無害化等級評定名單》). Each of these two projects will enhance the Company's overall capabilities and market position as the leading company in the solid waste treatment industry in Beijing and lay a firm foundation for expansion in the future.

(iv) Solidifying the Company's positioning as the sole listed platform under BEGCL for solid waste treatment following the Acquisition of the Target Projects

The Company understands that BEHL, the controlling Shareholder, intends to transfer the Retained Projects to the Company after obtaining all relevant third party approvals required for transfer of solid waste treatment projects. Since the grant of such third party approvals is beyond BEHL or the Company's reasonable control, there is no assurance that BEHL or the Company can obtain such approvals. Therefore, the Company is unable to assure that the Retained Projects can be transferred to the Company, or to accurately estimate the timing for transfer of the Retained Projects. So far as the Company understands, BEHL expects that certain of the Retained Projects can be transferred to the Group in the fourth quarter of 2016. The Company believes that these future acquisitions, if materialised, will further diversify the Group's portfolio in the solid waste treatment industry of the PRC and solidify the Group's positioning as the sole listed platform under BEGCL for solid waste treatment.

Capitalizing on the sound platform provided by BEGCL, as an overseas listed company under BEGCL focusing on solid waste treatment, the Company will deeply plough the enterprise foundation in the industry. The Company understands that BEGCL, the ultimate holding company of the Company and a state-owned enterprise, will continue to provide support to the Company.

The Directors believe that the solid waste treatment business of the Group will create synergies with the BEHL's other business segments (for example, the natural gas sales and distribution business as well as the water treatment business).

(v) Expanding the scope of business and favoring business development

The Acquisition expands the scope of business of the Group to include hazardous waste and medical waste treatment with great potential. The Hunan Hengxing Project has a hazardous waste and medical waste treatment capacity of 35,000 tonnes/year. The Directors consider that diversifying the Group's scope of business in waste treatment can favour future business development and enhance the return to Shareholders.

(vi) Strengthening and sharing of technical expertise

The Target Group has a track record of using grate furnace technology, which is a widely-used technology in the WTE industry. The Company can enjoy the benefits of strengthening and sharing of technical expertise and track record, thereby fueling the Company for the rapid development in the future.

(vii) Integrating the talented and seasoned management team of the Target Projects

The senior project team members of the Target Projects (in particular, those of the Gaoantun WTE Project and the Zhangjiagang WTE Project given that the Gaoantun WTE Project and the Zhangjiagang WTE Project have commenced operations in 2009 and 2010, respectively) are expected to have extensive industry experience, technical expertise and strong market development ability, which will be beneficial for the Company which has just completed a transformation and is dedicated to strengthening its foundation in the solid waste treatment industry. Leveraging on the expertise and experience of the senior project team members of the Target Projects, and the wisdom and diligence of these experienced employees, the Company can enjoy the benefits of strengthening and sharing of technical expertise, upgrade its human resources, and promote the existing solid waste treatment business to develop in a better and faster way, thereby on the whole facilitating the Company to develop on a virtuous and high-speed track.

(viii) Securing immediate and stable profit and cash flow from target assets

Through the Acquisition, the Company expects that it will secure immediate and stable profit and cash flow from target assets. For the year ended 31 December 2015, the maximum solid waste treatment capacity of target assets was in aggregate 5,907 tonnes/day, and the operating revenue and net profit was RMB615,650,000 and RMB86,927,000, respectively.

Based on the aforementioned, the Directors (including the independent non-executive Directors) consider that the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D.2 Financial impact on the Group

Following Completion, the Target Companies will become subsidiaries of the Company, and the financial results, assets and liabilities of the Target Companies will be consolidated into the accounts of the Group. With respect to the prospects of the Target Companies, it is expected that the Target Companies will generate net operating cash inflows to the Group.

Possible effect on earnings

For the year ended 31 December 2015, the profit attributable to equity shareholders of the Company was HK$83,283,000. As presented in the unaudited pro forma consolidated statement of profit or loss the Enlarged Group as set out in Appendix V to this circular, had the Acquisition been completed on 1 January 2015, the Target Companies would bring a profit of approximately HK$97,943,000, which will substantially increase the profit level of the Group.

Possible effect on net assets value

As set out in Appendix V to this circular, the unaudited pro forma consolidated statement of financial position of the Enlarged Group illustrates the effect of completion of the Acquisition on the Group, assuming that the Acquisition had taken place on 31 December 2015. Had the Acquisition been completed on 31 December 2015, and without taking into account conversion of the New Bonds in full, the pro forma total assets of the Enlarged Group as at 31 December 2015 will be increased from approximately HK$4,265,498,000 to approximately HK$9,551,956,000, and the pro forma net assets value of the Enlarged Group as at 31 December 2015 will be increased from approximately HK$2,098,925,000 to approximately HK$2,359,872,000.

D.3 Financial and trading prospects of the Enlarged Group

Financial prospects

The Acquisition is a further implementation of the Company's strategic transformation, with the Company acquiring new projects in order to improve its deficiencies in moving grate incineration technology, hazardous waste treatment technology and operational experience. The Company believes that the acquisition of the Target Projects will further strengthen its position in the environmental protection industry, in particular, the waste incineration-power generation business sector and hence improve the Group's financial performance and maximise return to the Company and its Shareholders in the long run. Save for the construction plan of phase II of the Beikong Shuyang Project, the Target Companies have no current development or expansion plans.

As all of the Target Projects have generated net profit for the year ended 31 December 2015, the Directors consider that the capital expenditure requirements can be satisfied by the Target Project's internal financing resources, without further funding injection from the Group and no further capital investment or commitment is required or intended to be made by the Company to the Target Companies as the Target Companies can utilise their own financial resources or loan facilities.

Future Prospects

Upon Completion, the Enlarged Group will, through the Target Group, engage in waste incineration-power generation business. The disposal of 43% equity interest in BMACC and 72% equity interest in BEITG Group was completed in October 2011 and March 2016, respectively. The major sources of income from the Company's principal business and profit in 2015 were derived from the solid waste treatment business and it is the present intention of the Company to continue to expand into the solid waste treatment business. As at the Latest Practicable Date, save for the Acquisition and the transfer of the Retained Projects (namely (i) the five household waste projects located in Huairou, Beijing, Xianyang, Shaanxi Province, Siping, Jilin Province, Zhaodong, Heilongjiang Province and Wuhan, Hubei Province; (ii) the medical waste project located in Anjie, Beijing; (iii) the hazardous waste project located in Taiyuan, Shanxi Province; and (iv) the hazardous waste and medical waste project located in Changzhou, Jiangsu Province), the Company does not have any present intention, negotiation, agreement, arrangement or understanding (concluded or otherwise) to acquire or inject any new business or to dispose of, scale-down and/or terminate its existing businesses and/or its major operating assets.

The Retained Projects are not included as part of the Acquisition and transferred to the Group by the BEHL Group at this time as the Retained Projects have not yet obtained all relevant third party approvals required for such transfer. Since the grant of the relevant third party approvals is beyond BEHL or the Company's reasonable control, there is no assurance that BEHL or the Company can obtain such approvals. Therefore, the Company is unable to assure that the Retained Projects can be transferred to the Company, or to accurately estimate the timetable for transfer of the Retained Projects. So far as the Company understands, BEHL expects that certain of the Retained Projects can be transferred to the Group in the fourth quarter of 2016 and intends to transfer the remaining Retained Projects to the Group once all relevant third party approvals required for such transfer has been obtained.

The Group believes that the Acquisition will enhance the Company's overall capabilities and market position as the leading company in the solid waste treatment industry in Beijing, and also lay a firm foundation for project expansion in the future.

E. LISTING RULES IMPLICATIONS

As the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules for the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, BEHL is the controlling Shareholder interested in 756,120,000 Shares, representing approximately 50.396% of the total number of Shares in issue. Accordingly, BEHL is a connected person of the Company and the entering into of the Sale and Purchase Agreement and transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. In light of the above, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Listing Committee's Decision

The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is **NOT** subject to reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants has been provided in this circular. China International Capital Corporation Hong Kong Securities Limited has been appointed as the financial adviser of the Company (the "**Financial Adviser**") to conduct due diligence in accordance with Practice Note 21 of the Listing Rules on the Target Companies.

F. INFORMATION OF THE GROUP AND BEHL

The Company is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 154). The Company is an investment holding company and its subsidiaries are principally engaged in environmental protection and solid waste treatment in the PRC.

BEHL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392). The BEHL Group is principally engaged in natural gas operations, water treatment operations, solid waste treatment operations and brewery operations in the PRC.

G. NON-EXEMPT CONNECTED TRANSACTIONS

Ha'erbin Shuangqi has since 2012 engaged Zhongguo Enfei, an entity holding 20% equity interest in Ha'erbin Shuangqi, in connection with construction works relating to the Ha'erbin Shuangqi Project. Further details of the engagement are set out as follows.

G.1 Project Design Contract

Pursuant to the project design contract entered into by Ha'erbin Shuangqi and Zhongguo Enfei in September 2012 (the "**Project Design Contract**"), Zhongguo Enfei undertook design works in respect of the Ha'erbin Shuangqi Project. Zhongguo Enfei was responsible for designing the facilities of the waste to energy plant, such as the waste incineration system, emissions cleansing system and electricity generating plants and to produce relevant design plans and construction plans, financial budgets and other ancillary works. The contract sum for the whole project is RMB9,990,000 (equivalent to approximately HK$11,893,000), which is payable by way of instalments in accordance with the terms of the Project Design Contract.

The Project Design Contract is effective from September 2012 until both parties have performed their respective obligations under the contract. Zhongguo Enfei is obliged to perform all its obligations within 45 days upon the Ha'erbin Shuangqi Project passing trial operation, which is currently estimated to be around late 2016.

G.2 Procurement Contract

Pursuant to the procurement contract entered into by Ha'erbin Shuangqi and Zhongguo Enfei in February 2013 (the "**Procurement Contract**"), Zhongguo Enfei was responsible for procuring, supervising the construction of, testing, packaging and arranging delivery of all production facilities, public facilities and all equipment for auxiliary facilities to the Ha'erbin Shuangqi Project. The contract sum for the above services is RMB180,000,000 (equivalent to approximately HK$214,286,000), which is payable by way of instalments in accordance with the terms of the Procurement Contract. 5% of the contract sum shall be withheld as a warranty payment and shall be released after Zhongguo Enfei has fulfilled its warranty obligations and there being no quality issues for a period of one year following the 72+24 hour trial operations of the Ha'erbin Shuangqi was passed or deemed to be passed.

The Procurement Contract is effective from February 2013. The Company is of the view that the Procurement Contract will expire upon releasing the aforementioned 5% of the contract sum withheld as warranty payment, and the Company estimates that the construction of the Ha'erbin Shuangqi Project will be completed around late 2016.

G.3 Construction and Installation Contractor Contract

Pursuant to the construction and installation main contractor contract entered into by Ha'erbin Shuangqi and Zhongguo Enfei in February 2013 (the "**Construction and Installation Contractor Contract**"), Zhongguo Enfei was engaged as the contractor for the construction works in relation to the Ha'erbin Shuangqi Project. Under contract, Zhongguo Enfei undertook all civil construction works, installation works, ancillary engineering works (including trial runs of equipment required for completion and examination of acceptance). The contract sum for the above services is RMB237,500,000 (equivalent to approximately HK$282,738,000), which is payable by way of instalments in accordance with the terms of the Construction and Installation Contractor Contract. 5% of the contract sum shall be withheld as a warranty payment and shall be released after Zhongguo Enfei has fulfilled its warranty obligations and there being no quality issues for a period of one year following the 72+24 hour trial operations of the Ha'erbin Shuangqi Project was passed or deemed to be passed.

The Construction and Installation Contractor Contract is effective from February 2013. The Company is of the view that the Construction and Installation Contractor Contract will expire upon releasing the aforementioned 5% of the contract sum withheld as warranty payment, and the Company estimates that the construction of the Ha'erbin Shuangqi Project will be completed around late 2016.

G.4 Basis of Determination of the Consideration of the Contracts

Accordingly, the aggregate contract sum payable by Ha'erbin Shuangqi to Zhongguo Enfei is RMB427,490,000 (equivalent to approximately HK$508,917,000). So far as the Company understands, the contract sums were determined after arm's length negotiation and considering the fees payable by the Group to independent third parties for construction works of a similar nature.

G.5 Listing Rules implications

Upon Completion, Zhongguo Enfei will become a connected person of the Company by virtue of being a substantial shareholder of Ha'erbin Shuangqi, a non wholly-owned subsidiary of the Company for the purposes of the Listing Rules. Accordingly, Zhongguo Enfei will become a connected person of the Company at subsidiary level.

Had the Project Design Contract, the Procurement Contract and the Construction and Installation Contractor Contract (collectively, the "**Contracts**") been entered into by the Target Group with Zhongguo Enfei after Completion, the entering into of the Contracts would constitute connected transactions of the Company. Nonetheless, since the Board has confirmed and approved the contracts, and the independent non-executive Directors have confirmed that the contracts are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, had the Contracts been entered into by the Target Group with Zhongguo Enfei, a connected person of the Company at subsidiary level, the entering into of the Contracts would be exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

H. PROPOSED CHANGE OF NAME OF THE COMPANY

Reference is made to the announcement of the Company on 31 March 2016 in relation to, among other things, the proposed change of name of the Company.

The Board proposes to change the name of the Company from "Beijing Development (Hong Kong) Limited 北京發展(香港)有限公司" to "Beijing Enterprises Environment Group Limited 北京控股環境集團有限公司" (the "**Proposed Change of Company Name**").

Conditions for the Proposed Change of Company Name

The Proposed Change of Company Name is subject to the following conditions being fulfilled:

(a) the passing of a special resolution by the Shareholders at the EGM approving the Proposed Change of Company Name; and

(b) the Registrar of Companies in Hong Kong approving the new name in English and Chinese and issuing a certificate of change of name.

Subject to the satisfaction of the conditions set out above, the Proposed Change of Company Name will take effect from the date on which the certificate of change of name is issued by the Companies Registry of Hong Kong.

Reasons for the Proposed Change of Company Name

Following the business transformation of the Company in 2014, the Company has positioned itself in the solid waste treatment industry with its business scope covering, among other things, municipal solid waste treatment, industrial hazardous waste treatment, medical waste treatment, construction waste recycling and other integrated services. Through investment in and construction and operation of solid waste treatment business, the Company targets to become an industry leader in waste treatment. The Board considers that the Proposed Change of Company Name will complement the future development strategy of the Company and place it in a better position to identify itself as a member of BEHL Group, the controlling Shareholder of the Company, with focus in the environmental protection industry.

Effects of the proposed change of company name

Share certificate

Upon the Proposed Change of Company Name becoming effective, all existing share certificates in light green colour bearing the current name of the Company will continue to be evidence of title to shares of the Company and will continue to be valid for trading, settlement and registration purposes and the rights of the Shareholders will not be affected as a result of the change of the name of the Company. There will not be any free exchange of the existing share certificates in light green colour of the Company for new share certificates in beige colour under the new name of the Company. If the Proposed Change of Company Name becomes effective, any issue of share certificates thereafter will be in the new name of the Company and the securities of the Company will be traded on the Stock Exchange in the new name of the Company.

Change of stock short name

In addition, subject to confirmation by the Stock Exchange, the English and Chinese stock short names of the Company for trading in the securities on the Stock Exchange will also be changed after the Proposed Change of Company Name becomes effective.

Further announcement(s) will be made by the Company to inform the Shareholders of the effective date of the Proposed Change of Company Name and the new English and Chinese stock short names of the Company for trading of the shares of the Company on the Stock Exchange as and when appropriate.

I. EGM

A notice convening the EGM to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 18 July 2016 at 3:00 p.m. to consider and, if thought fit, to approve, the Sale and Purchase Agreement and the transactions contemplated thereunder is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same to the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, as well as the Proposed Change of Company Name.

As at the Latest Practicable Date, BEHL is the controlling Shareholder interested in 756,120,000 Shares, representing approximately 50.396% of the total number of Shares in issue. BEHL and its associates shall abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. Save for the aforesaid and to the best knowledge of the Company, as at the Latest Practicable Date, no other Shareholder has a material interest in the Sale and Purchase Agreement or the transactions contemplated thereunder, and therefore no other Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Pursuant to Rules 13.39(4) and 13.39(5) of the Listing Rules, the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company on the results of the EGM.

Pursuant to the articles of association of the Company, Mr. E Meng (being a director of both the Company and BEHL) and Mr. Ke Jian (being a director of the Company and the vice president of BEHL) had abstained from voting on (and had not been counted in the quorum for) the Board resolutions for approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds).

J. RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping, Prof. Nie Yongfeng and Mr. Cheung Ming, has been established to advise the Independent Shareholders regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds). Platinum has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The appointment of Platinum has been approved by the Independent Board Committee.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds); and (ii) the letter from Platinum which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issuance of the New Bonds).

The Directors (including the independent non-executive Directors) consider that the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and the terms of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors also consider that the proposed change of name in English and Chinese are in the best interests of the Company and the shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the proposed resolutions set out in the notice of the EGM.

K. ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Beijing Development (Hong Kong) Limited
E Meng
Chairman

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds), which has been prepared for the purpose of inclusion in this circular.

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

24 June 2016

To the Independent Shareholders

Dear Sir or Madam

We have been appointed as members of the Independent Board Committee to advise you in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board in a circular dated 24 June 2016 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Platinum Securities Company Limited has been appointed to advise us and the Independent Shareholders on whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and whether the Sale and Purchase Agreement and the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole. Details of its advice are set out on pages 61 to 104 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 10 to 58 of the Circular.

Having considered the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and taking into account the advice and recommendation of Platinum, we consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds) to be fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the best interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully
Beijing Development (Hong Kong) Limited
Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping,
Prof. Nie Yongfeng and Mr. Cheung Ming
Independent Board Committee

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong
Telephone (852) 2841 7000
Facsimile (852) 2522 2700
Website www.platinum-asia.com

24 June 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF EQUITY INTEREST
IN THE TARGET GROUP
INVOLVING ISSUE OF NEW BONDS**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Details of the Acquisition are contained in the letter from the Board as set out in the circular of the Company dated 24 June 2016 (the "Circular"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 31 March 2016, the Board has announced that the Company entered into the Sale and Purchase Agreement with BEHL, pursuant to which the Company has conditionally agreed to acquire and BEHL has conditionally agreed to sell the Sale Interests at an aggregate consideration of RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000). The Consideration will be satisfied by the issue of the New Bonds.

As BEHL is the controlling Shareholder of the Company, BEHL is a connected person of the Company and the entering into of the Sale and Purchase Agreement and transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. In light of the above, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

BASIS OF OUR OPINION

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds pursuant to the Specific Mandate) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and Independent Shareholders as to whether the Independent Shareholders should vote in favour of the Transactions.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: i) the Sale and Purchase Agreement; ii) related announcement of the Company dated 31 March 2016 (the "the Announcement"); iii) the audited 2015 annual report of the Company (the "2015 Annual Report"); iv) the audited 2014 annual report of the Company (the "2014 Annual Report"); v) the audited 2015 accountant's reports on the GSWM, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing (the "2015 Accountant's reports"); vi) Unaudited pro forma financial information of the Enlarged Group ("the Pro forma Financial Information"); and vii) the business valuation report of Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing (the "Business Valuation Report").

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Acquisition.

During the past two years, Platinum Securities Company Limited has only acted as independent financial adviser to the BEHL, a substantial shareholder of the Company, regarding certain connected and discloseable transactions as mentioned in the circular of BEHL dated 18 October, 2013. The past engagement was limited to providing independent advisory services pursuant to the Listing Rules for which Platinum received normal professional fees. Accordingly, we do not consider the past engagement gives rise to any conflict of interest for Platinum in acting as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. As at the Latest Practicable Date, we are independent from, and are not associated with the Company or any other party to the Acquisition, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Acquisition. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Acquisition or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping, Prof. Nie Yongfeng and Mr. Cheung Ming, has been established to advise the Independent Shareholders as to whether the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder (including the Acquisition and the issue of the New Bonds pursuant to the specific mandate) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Background of the Acquisition

On 31 March 2016, the Board has announced that the Company entered into the Sale and Purchase Agreement with BEHL, pursuant to which the Company has conditionally agreed to acquire and BEHL has conditionally agreed to sell the Sale Interests at an aggregate consideration of RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000). The Consideration will be satisfied by the issue of the New Bonds.

1.1 Information of the Group

Since 2011, the Group has committed to commence strategic transformation to restructure its existing business into the environmental protection and solid waste treatment industry, with a focus on waste incineration-power generating. The Company believes that the waste incineration-power generation of the environmental protection and solid waste treatment industry is a market with vast prospects, delivers good social efficiency, provides stable cash flow and is suitable for entry and investment by enterprises with a governmental background.

The Company is a limited liability company incorporated in Hong Kong and the shares of which are listed on the main board of The Stock Exchange. The Group is principally engaged in (i) the solid waste treatment business which comprises the construction and operation of waste incineration plants, waste treatment and the sales of electricity and steam generated from waste incineration; and (ii) the information technology ("IT") business which comprises the provision of IT related services, which included system integration, the construction of information networks and sale of related equipment, the provision of IT technical support and consultation services and the development and sale of software. During the year ended 31 December 2014, the Group planned to focus its resources on the solid waste treatment business and decided to cease the IT business. As a result, The IT business is classified as a discontinued operation during the year ended 31 December 2015.

Set out below is the financial highlights of the Company's consolidated financial statements extracted from the 2015 Annual Report:

Table 1: Financial highlights of the Group

		2015		**2014**
		(HK'000)		*(HK$'000)*
		(Audited)		(Audited)
Revenue	100%	1,466,662	100%	348,510
– Solid waste treatment business[1]	85%	1,246,706	31%	108,516
– IT businesses[2]	15%	219,956	69%	239,994
Profit for the year		83,985		5,147
Profit attributable to members of the Company		83,283		7,519
Cash and cash equivalents		1,862,369		1,692,467
Convertible bonds		783,385		779,947
Total assets		4,265,498		3,192,897
Equity attributable to members of the Company		2,074,268		2,053,669

Notes:

[1] *continued operations*

[2] *discontinued operation*

The revenue from continuing operation represents the revenue generated from provision of solid waste treatment, sales of electricity and steam of the Changde Project and the Taian Project and the provision of construction services of the Haidian Project. The total revenue from continuing operation was approximately HK$1,246.7 million in 2015, increased by approximately HK$1,138.2 million as compared with approximately HK$108.5 million of 2014. The increase was mainly contributed by the revenue from Haidian Project of HK$1,077.87 million in 2015. The revenue from IT business in 2015 was approximately HK$220.0 million, decreased by approximately 8.3% as compared with approximately HK$240.0 million in 2014.

Profit for the year amounted to approximately HK$84.0 million in 2015, increased by approximately HK$78.8 million as compared with approximately HK$5.1 million in 2014. Profit attributable to members of the Company amounted to approximately HK$83.3 million in 2015, increased by approximately HK$75.8 million as compared with approximately HK$7.5 million in 2014. The increase was mainly due to the full year profit contribution from the Changde Project and the Taian Project and the profit generated by the construction services from the Haidian Project of HK$20.14 million and gain on disposal of a subsidiary of HK$10.94 million.

As at 31 December 2015, the cash and bank balances of the Group amounted to approximately HK$1,862.4 million, representing an increase of approximately 10.0% as compared with approximately HK$1,692.5 million of last year. The increase was due to the combined effect of the cash inflows from operating activities of approximately HK$270.26 million and the cash outflows from investing and financing activities of approximately HK$36.75 million and approximately HK$2.82 million, respectively. As at 31 December 2015, the Company has convertible bonds with an aggregate principal amount of approximately HK$783.4 million at an initial conversion price of HK$1.13 per share. The convertible bonds are unsecured, bear interest at 1% per annum and will be matured in February 2018.

As at 31 December 2015, the Group's total assets increased by approximately HK$1,072.6 million to approximately HK$4,265.5 million as compared with 31 December 2014. The Group's total equity attributable to owners of parent amounted to approximately HK$2,074.3 million as at 31 December 2015, which represents an increase of approximately 1.0% as compared to approximately HK$2,053.7 million as at 31 December 2014.

1.2 Information of BEHL

BEHL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392). The BEHL Group is principally engaged in natural gas operations, water treatment operations, solid waste treatment operations and brewery operations in the PRC.

1.3 Information of the Target Group and Target Projects

The Target Group comprises (i) the entire issued share capital of GSWM; (ii) 80% equity interest in Ha'erbin Shuangqi; (iii) 100% equity interest in Beikong Shuyang; (iv) 100% equity interest in Beikong Wenchang; and (v) 65% equity interest in Hunan Hengxing. The Target Projects comprises (i) five household waste incineration projects, which are operated by (a) GSWM via its subsidiaries, Gaoantun WTE and Zhangjiagang WTE; (b) Ha'erbin Shuangqi; (c) Beikong Shuyang; and (d) Beikong Wenchang; and (ii) one hazardous and medical waste treatment project operated by Hunan Hengxing.

1.3.1 Household Waste Incineration Projects

Each of the Target Household Waste Companies has entered into a concession agreement in respect of its household waste incineration project with the relevant local governmental authority, pursuant to which the relevant Target Household Waste Company has obtained rights to operate the relevant project facilities of the Household Waste Treatment Projects for the treatment of household waste. The Household Waste Treatment Projects operate on either Build-Operate-Transfer ("BOT") basis or Build-Own-Operate ("BOO") basis during the respective licensed periods. The Target Household Waste Companies generate income by (i) the collection of waste treatment fees for waste-incineration treatment of household waste, and (ii) the collection of on-grid tariffs from the sale of waste-generated electricity to grid enterprises.

Table 2: Major terms of the service concession arrangement of the Household Waste Treatment Projects

Name of plant	Location	Type of service concession arrangement	Service concession period	Date of commencement of operation
Gaoantun WTE Project	Chaoyang district, Beijing, the PRC	BOT *(Note 1)*	30 years from 2005 to 2034	April 2009
Zhangjiagang WTE Project	Zhangjiagang of Suzhou, Jiangsu province, the PRC	BOO *(Note 2)*	(Phase I) 30 years from 2008 to 2038	* February 2010
			(Phase II) 30 years from 2014 to 2044	* February 2016
Ha'erbin Shuangqi Project	Xiangfang district, Ha'erbin, Heilongjiang province, the PRC	BOT	(Phase I) 30 years from 2013 to 2043	May 2014
			(Phase II) 30 years from 2013 to 2043	2016 *(Note 3)*
Beikong Shuyang Project	Shuyang, Jiangsu province, the PRC	BOT	30 years from 2015 to 2045	* January 2015
Beikong Wenchang Project	Wenchang, Hainan province, the PRC	BOT	15 years from 2012 to 2027	* July 2012

* *Trial operation commencement date*

Notes:

1. Build-operate-transfer, a project model in which a private entity receives a concession from the public sector to finance, design, construct and operate a facility stated in the concession contract for a definite period of time and transfer the facility and assets to the public sector after the completion of the concession period, at which point the obligation of the private entity to operate the designed and constructed facility effectively terminates.

2. Build-own-operate, a project delivery mechanism in which a government entity sells to a private sector party the right to construct a project according to agreed design specifications and to operate the project in perpetuity.

3. Phase II of Ha'erbin Shuangqi Project has not commenced operation as at the date of this circular. It is expected to commence trial operations in 2016.

Table 3: Capacity of the Household Waste Treatment Projects

		Maximum daily capacity for the treatment of household waste	Maximum daily electricity capacity
Gaoantun WTE Project		1,843 tonnes	756,200 kWh
Zhangjiagang WTE Project	(Phase I)	971 tonnes	303,108 kWh
	(Phase II)		
Ha'erbin Shuangqi Project	(Phase I)	734 tonnes	244,380 kWh
	(Phase II)	1,200 tonnes	–
Beikong Shuyang Project		833 tonnes	230,400 kWh
Beikong Wenchang Project		326 tonnes	85,700 kWh

Table 4: Revenue model of the Household Waste Treatment Projects

	Waste treatment fee	On-grid tariff
Gaoantun WTE Project	RMB150 per tonne	RMB0.65 per kWh
Zhangjiagang WTE Project	RMB97 per tonne	RMB0.65 per kWh
Ha'erbin Shuangqi Project	RMB73 per tonne	RMB0.65 per kWh
Beikong Shuyang Project	RMB58.8 per tonne	RMB0.65 per kWh
Beikong Wenchang Project	RMB93.8 per tonne	RMB0.65 per kWh

* *Based on the daily treatment capacity of Gaoantun WTE Project, the unit price of waste treatment service shall be RMB150.0 per tonne for the volume less than 1,600 tonnes per day, RMB82.5 per tonne for that ranging from 1,600 to 1,760 tonnes per day, and RMB52.5 per tonne for that more than 1,760 tonnes per day.*

Table 5: Financial highlights of the Target Group companies operating Household Waste Incineration Projects

	GSWM		Ha'erbin Shuangqi		Beikong Shuyang		Beikong Wenchang		Combined total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Revenue	318,574	318,775	193,284	257,024	32,895	279,579	13,870	12,189	558,623	867,567
– Solid waste treatment business	115,224	116,152	10,623	5,729	9,790	415	6,407	5,834	142,044	128,130
– Sale of electricity	156,548	151,473	16,324	11,963	19,765	–	7,463	6,355	200,100	169,791
– Construction services	–	9,181	166,337	239,332	3,340	279,164	–	–	169,677	527,677
Profit (loss) for the year	50,011	27,814	21,331	32,917	5,887	38,662	528	(1,027)	77,757	98,366
Net assets value	599,550	549,539	297,487	276,156	132,970	127,083	17,613	17,085	1,047,620	969,863

As stated in the Accountant's Reports in Appendix IIIA, IIIB, IIIC and IIID of the Circular, the revenue of Target Group companies operating Household Waste Incineration Project is mainly from (i) solid waste treatment services, (ii) sale of electricity and (iii) construction services in relation to solid waste treatment. GSWM, Beikong Shuyang and Beikong Wenchang are focused on providing solid waste treatment services and sale of electricity, while Ha'erbin Shuangqi is mainly engaged in provision of construction services. The four Target Group companies are all in the early stage and not fully operated. The combined total profit for the year of these four Target Group companies in 2015 amounted to approximately RMB77.8 million, representing a decrease of 21.0% as compared to last year. The combined total net asset value as at 31 December 2015 amounted to approximately RMB1,047.6 million, representing an increase of 8.0% as compared to approximately RMB969.9 million as at 31 December 2014.

1.3.2 Hazardous and Medical Waste Treatment Projects

The Target Hazardous and Medical Waste Company has obtained requisite operation permit(s) from the Hunan local governmental authority for rights to operate the relevant project facilities and to handle hazardous and medical waste within a specified area. The Target Hazardous and Medical Waste Company has also entered into treatment agreements with organisations that generates hazardous waste and medical waste and collects waste treatment fees for treatment of hazardous waste and medical waste.

The Hunan Hengxing Project is a hazardous waste and medical waste treatment project which the project has hazardous and medical waste treatment capacity of 35,000 tonnes/year, including waste containing copper such as copper sulphate of 6,000 tonnes/year, acidic-alkali waste and emulsifying liquid waste of 6,000 tonnes/year, and heavy metal sludge of 18,000 tonnes/year. The Hunan Hengxing Project commenced trial operations in May 2013.

Table 6: Major terms of the service concession arrangement of the Hazardous and Medical Waste Treatment Project

Name of plant	Location	Type of service concession arrangement	Service concession period	Year of commencement of operation
Hengyang, Hunan province hazardous waste treatment plant project	Hengyang, Hunan province	BOT	25 years from the date of completion of final acceptance*	2013

* *Pursuant to the service concession agreement, the service concession period is 25 years from the date of completion of final acceptance of the construction of facility by the relevant government authorities, which is expected to be occurred in 2016.*

Table 7: Financial highlights of Hunan Hengxing

	2015	**2014**
	(RMB'000)	*(RMB'000)*
	(Audited)	(Audited)
Revenue	57,027	47,436
– Hazardous waste treatment services	49,794	24,862
– Construction services	7,233	22,574
Profit for the year	9,170	5,858
Net assets value	85,351	76,181

According to the Accountant's Report of Hunan Hengxing as stated in Appendix IIIE of the Circular, Hunan Hengxing generated its revenue mainly from (i) hazardous waste treatment services and (ii) construction services in relation to hazardous waste treatment. Hunan Hengxing's revenue from the hazardous waste treatment services amounted to approximately RMB49.8 million in 2015 as compared to approximately RMB24.9 million in 2014, representing an increase of approximately 100.3% compared with the previous year. The revenue generated from the construction services decreased by approximately 68.0% to approximately RMB7.2 million in 2015 compared to approximately RMB22.6 million in 2014. The profit for the year amounted to approximately RMB9.2 million in 2015, representing an increase of 56.5% as compared to the last financial year. The net asset value of Hunan Hengxing increased by approximately 12.0% to approximately HK$85.4 million as at 31 December 2015 as compared to approximately RMB76.2 million as at 31 December 2014.

2. Industry overview

2.1 Municipal solid waste ("MSW") treatment market

MSW is solid waste generated during all urban activities including residential, commercial and construction activities. The harmless treatment methods in China mainly comprise Landfill disposal, incineration and composting. According to the report of Frost & Sullivan stated in the Appendix I, the volume of MSW collected and transported in China has been increasing from 221.2 million tonnes in 2010 to 257.4 million tonnes in 2015 with a CAGR of 3.1%. The volume of MSW treatment increased from 140.5 million tonnes in 2010 to 227.6 million tonnes in 2015, registering a CAGR of 10.1%. The harmless ratio increased from 63.5% to 88.4% in the same period with significant improvement in the town level. The treatment volume is expected to grow to 309.9 million tonnes in 2020, with the harmless treatment ratio growing to 94.6%. The harmless treatment capacity has witnessed a fast growth from 456.9 thousand tonnes per day in 2010 to 779.5 thousand tonnes per day in 2015. The treatment capacity is expected to grow to 1,088.0 thousand tonnes per day in 2020, with a CAGR of 7.0% from 2016 to 2020.

As per the Industry Overview in Appendix I, there is evidence to suggest that China rapid urbanization, rise of income per capita and the improvement of life standards has led to a higher generation of solid waste per capita. Moreover, in order to improve the living conditions for urban residents, China's central government has been encouraging the development of MSW harmless treatment and the construction of MSW treatment facilities. As per the Industry Overview in Appendix I, we note that: (1) the solid waste treatment industry is still in its growing stage and will attract heavy investment from both government and private capital; (2) incineration treatment of MSW is expected to be adopted more widely in the future due to its advantage in terms of large treatment capacity and limited land usage, which is a key government.

As such, we are of the view that the acquisition of the Target Group and Target Projects are in line with the market trend of the sustained development of the MSW treatment industry in China and will strengthen the Group prospects in the coming future, and as such we think it is in the interests of the Company and Shareholders as a whole.

2.2 Waste-to-energy ("WTE") market

WTE is the process of generating energy in the form of electricity or heat through the direct incineration of MSW. As stated in the report of Frost & Sullivan in the Appendix I, the number of WTE plants reached 231 as the end of 2015. The treatment capacity of WTE plants reached 220.3 thousand tonnes per day by the end of 2015, increasing from 80.8 thousand tonnes per day in 2010, representing a CAGR of 22.2% from 2010 to 2015. It is expected that the treatment capacity of WTE plants will increase to 450.8 thousand tonnes per day at the end of 2020, with a CAGR of 15.1% from 2016 to 2020.

We noted that there are two main furnace technologies that are used for waste incineration in China: grate furnaces and circulating fluidized bed furnaces. The choice of technology for a new plant is often a result of case specific conditions including characteristic of local solid waste and local government's preference. In general, moving grate system has been widely used in developed countries that generally have municipal solid waste with relatively high calorific value and low moisture content. On the other hand, CFB technology for solid waste incineration is developed in China and specific to the local geographic and economic conditions. For instance, compared to moving grate technologies, CFB technologies are more effective in handling municipal solid waste including food waste and sludge that normally carries relatively high organic and moisture content and low calorific value.

With the reference to the Industry Review in Appendix I, we note that: (1) with gradual technological improvement and maturity, WTE plants are expected to be more cost-efficient, and have better performance, less environmental impacts, and better treatment of flue gas and ashes; (2) incineration treatment is gaining popularity in China as a visible harmless waste treatment solution that could considerably reduce waste volume and save land space; and (3) China's WTE Industry is characterized by high entry barriers. As such, we are of the view that the Company would benefit from the Acquisition of the Target Group, with positive impact on its business prospects. Therefore, we believe the Acquisition of the Target Group is in the interests of the Shareholders of the Company.

2.3 Hazardous Waste Treatment Market

Hazardous waste is defined as 1) the wastes that have one or more hazardous characteristics like corrosivity, toxicity, ignitability, reactivity and so on, 2) those that are likely to be harmful to the environment or human body and need to be treated as hazardous wastes. The hazardous waste treatment methods in China mainly comprise resource utilization and disposal.

According to the report of Frost & Sullivan in the Appendix I, the hazardous waste output amounted to 34.3 million tonnes of in 2011 compared to 15.8 million tonnes reported the year before. In 2015, hazardous waste output reached 42.2 million tonnes. The number would increase to 76.2 million tonnes in 2020 from 48.5 million tonnes in 2016, representing a CAGR of 12.0% during the forecast period. The disposal volume of hazardous waste in China from 2010 to 2015 increased from 5.1 million tonnes to 11.3 million tonnes, representing a CAGR of 17.2%, while the resource utilization volume of hazardous waste grew from 9.8 million tonnes to 24.3 million tonnes, with a CAGR of 20.0%. The disposal volume is estimated to grow from 13.8 million tonnes in 2016 to 26.3 million tonnes in 2020, with a CAGR of 17.5%, and the resource utilization volume is expected to increase from 28.2 million tonnes in 2016 to 44.0 million tonnes in 2020, showing a CAGR of 11.7%. The capacity (resource utilization capacity not included) of centralized hazardous waste treatment facilities run by hazardous waste treatment companies in China has increased rapidly from 6.5 million tonnes per year in 2010 to 18.5 million tonnes per year in 2015, representing a CAGR of 23.3%. The disposal capacity is expected to continue fast growth, from 23.0 million tonnes per year in 2016 to 42.6 million tonnes per year in 2020, with a CAGR of 16.7%.

With further reference to the Industry Overview in Appendix I, we note that (1) the hazardous waste treatment industry is supported by favorable policies recently introduced by China central government, which is beneficial to the development of the industry; (2) the demand for hazardous waste treatment is growing at a rapid pace, with few players being able to provide efficient technology solutions to the market; (3) China's hazardous waste treatment industry entry barriers are high, due to the qualification requirements and difficult regulatory approval process.

Having considered the above, we are of the view that the Company will benefit from the Acquisition of the Target Hazardous Waste and Medical Waste Company as it is in line with China government supportive policies on hazardous waste treatment and will have a positive impact on the Company's overall business prospect. Therefore we believe, the Acquisition of the Target Hazardous Waste and Medical Waste Company is in the interests of the Shareholder of the Company.

3. Reasons for and benefits of the Acquisition

We understand from the management of the Company that the Acquisition will improve the performance of business and results of the Company in the following respects:

3.1 Positioning the Company as a listed platform under BEGCL for solid waste treatment

We understand from the management of the Company that the Company has been committed to enter the waste incineration-power generation industry and become a pioneer in the solid waste treatment industry since 2011. The Company expects that the Acquisition is a good opportunity for the Company to operate diversified solid waste treatment projects in a wider region. With the growing demand for energy and improving awareness of sustainable development and environmental protection, the PRC government has paid more attention to issues such as energy and environmental protection. In parallel with the continuous improvement of urban residents' living standards and the continued economic growth in the PRC, it is expected that municipal waste will increase steadily. Capitalizing on the sound platform provided by BEGCL, as an overseas listed company under BEGCL, the Company will become one of the major players in the sector while BEGCL, the ultimate holding company of the Company and a state-owned enterprise, will continue to provide support to the Company.

3.2 Expanding the scale of business of the Company and developing the Company into one of the leading companies in solid waste treatment industry in China

The Company's solid waste treatment current capacity now in operation is approximately 2,008 tonnes/day. In addition, the household waste incineration power generation project in Haidian District, Beijing (the "Haidian Project"), will commence operations by the end of 2016, with a solid waste treatment capacity expected to be 2,500 tonnes/day. Adding the maximum solid waste treatment capacity of Target Projects amounting to 6,645 tonnes/day, the solid waste treatment capacity of the Group will reach 11,153 tonnes/day after the Acquisition. The business of Target Group can achieve a synergy with the existing business of the Company. We concur with the Directors of the Company that the Acquisition will not only result in an upgraded scale of business, but will also help the Company to establish a leading position in the market.

3.3 Becoming a leading player in the solid waste treatment industry in Beijing

We understand from the management of the Company that the Directors consider both the Haidian Project and the Gaoantun WTE Project both are high quality and high profile projects in Beijing. The treatment capacity of the Gaoantun WTE Project is 1,600 tonnes/day, and taking into consideration that the Haidian Project will commence operation by the end of 2016, the solid waste treatment capacity of the Company in Beijing will amount to 4,100 tonnes/day. The implementation of the Haidian Project will help to change the imbalanced waste treatment mix in Beijing and Haidian District; while the Gaoantun WTE Project is one of the biggest BOT municipal solid waste incineration plant, and also one of the five solid waste incineration plants with "AAA" rating in the PRC as per the Innocuousness Rating List of Municipal Household Waste Landfill and Incineration Plant in 2012. Each of these two projects will enhance the Company's overall capabilities and market position as the leading company in the solid waste treatment industry in Beijing, and also lay a firm foundation for project expansion in the future.

3.4 Expanding the scope of business and favoring business development

We further note that the Acquisition will expand the scope of business of the Group to include hazardous and medical waste treatment, areas with solid growth potential. The Hunan Hengxing Project has a hazardous and medical waste treatment capacity of 35,000 tonnes/year. The Directors consider that diversifying the Group's scope of business in waste treatment can enhance future business development and positively impact the return to Shareholders.

3.5 Strengthening and sharing of technical expertise

In addition, we understand that the Target Group has a track record of grate furnace technology, which is the widely-used technology in the waste-to-energy industry. The Company can enjoy the benefits of strengthening and sharing of technical expertise and track record, thereby fueling the Company for the rapid development in the future.

3.6 Integrating the talented and seasoned management team of the Target Companies

Furthermore, we note that the senior project team members of the Target Companies have extensive industry experience, technical expertise and strong market development ability, which will be beneficial for the Company in its current effort to strengthen its positioning in the solid waste treatment industry. Also, Company would be able to leverage on the expertise and experience of the senior project team members of Target Companies.

3.7 Through analysis on non-compliance incidents

Besides the above considerations, we note that there were various non-compliance incidents of the Target Companies during the Track Record Period as disclosed in Appendix I of the Circular (the "Non-compliance Incidents"). First of all, we have discussed with the INEDs of the Company in relation to the Non-compliance Incidents. We also researched Non-compliance Incidents related to listed comparable companies. In this regard, we have reviewed the latest annual reports as well as the prospectus of Canvest Environmental Protection Group Company Limited (1381 HK) ("Canvest"), a leading pure play WTE provider focused solely on the development, management and operation of WTE plants. As per the information disclosed in the prospectus, we note that Canvest was also subject to similar historical non-compliance incidents prior to the submission of their listing application. Such potential risks and uncertainties related to non-compliance issues were also disclosed in Canvest's latest annual report. Therefore, we consider such Non-Compliance Incidents as common issues within the industry.

Furthermore, we have also reviewed the PRC legal opinion regarding the Non-Compliance Incidents and note that such issues might subject the Target Group to potential penalties and risks of suspension of the permits to operate the plants. However, after discussing with the management of the Company and the PRC legal adviser, we understand that there should be no material legal impediment for the Target Group to obtain the related licenses or permits. We are also informed by the PRC legal adviser that there is a limited risk for the Target Group to receive a penalty by the government according to their previous experience with cases similar to the Non-Compliance Incidents. Moreover, we were further informed by the management of the Company that the Company will deal with the issues carefully, to ensure that the risks will be handled appropriately.

In light of the above, and after careful consideration of the impact of the Non-Compliance Incidents, we concur with the management of the Company that the Acquisition is in line with the Company's business strategy of focusing on the solid waste treatment business and will likely enhance the performance of the Company. Therefore, we are in the view of that the Acquisition is in the interest of the Company and the Shareholders.

4. Principal terms of the Sale and Purchase Agreement and New Bonds

Set out below is a summary of the major terms of the Sale and Purchase Agreement:

Date

31 March 2016

Parties

(1) the Company (as purchaser)

(2) BEHL (as vendor)

Assets to be acquired

The Sale Interests, which comprises:

(a) the entire issued share capital of GSWM;

(b) 80% equity interest in Ha'erbin Shuangqi;

(c) 100% equity interest in Beikong Shuyang;

(d) 100% equity interest in Beikong Wenchang; and

(e) 65% equity interest in Hunan Hengxing.

Consideration and terms of settlement

The Consideration payable by the Company to BEHL is RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000, which has been arrived at after arm's length negotiations between the Company and BEHL after taking into account, among other things:

(I) the then available financial information of the Target Group for the year ended 31 December 2015, in particular, the net asset value of the Target Group as at 31 December 2015, being approximately RMB1,132,971,000 (equivalent to approximately HK$1,365,024,000); and;

(II) an independent study of:

1) comparables transactions related to companies with business similar to that of the Target Group with reference to transactions a) in the waste-to-energy treatment industry, in particular (i) MBK Partners and Hudson Clean Energy Partners disposing of their controlling stake in

Golden State Environment Group Corporation; (ii) Transpacific Industries Group Ltd. Disposing of its waste management business in New Zealand to Beijing Capital Group Company Ltd; and (iii) the Company acquiring an interest in and shareholders' loan of KCS Taian Investments Company Limited and KCS Changde Investments Company Limited from Khazanah Nasional Berhad, and b) in the water treatment industry, including by not limited to, (i) China Everbright Water Ltd, acquiring a 100% equity interest of Dalian Dongda Water Co., Ltd; and (ii) SIIC Environment Holdings Ltd. Acquiring a 92% equity interest in Fudan Water Engineering & Technology Co., conducted in 2014 and 2015 and taking into account key-value indicators such as enterprise value/EBITDA for such transactions); and

2) the comparable company multiple approach (prepared with reference to the price to earnings ratios of comparable companies engaged in waste-to-energy or water treatment businesses that are listed on the Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange), such as Dynagreen Environmental Protection Group Co., Ltd, China Everbright International Limited, Dongjiang Environmental Company Limited and Capital Environment Holdings Limited.

Based on the comparable precedent transaction approach, the equity value of the Target Group is between RMB1,620 million to RMB2,300 million calculated by enterprise value/EBITDA, and RMB2,960 million to RMB3,640 million calculated by the price-earnings ratio. Based on the comparable company multiple approach, the equity value of the Target Group is between RMB1,390 million to RMB2,170 million calculated by the 2015 estimated trading multiples, and between RMB820 million to RMB1,760 million calculated by the 2016 estimated trading multiples. Based on the price-to-book ratio as the time of the independent study of market comparables, the equity value is between RMB1,480 million to RMB2,200 million.

As transactions in the waste-to-energy sector is limited, the valuation based on the comparable transactions precedent approach is (i) biased toward the water treatment sector; and (ii) higher than the valuation derived from the comparable company multiple approach. Accordingly, the market comparable study suggested to exclude the valuation derived from the comparable precedent transaction approach in determining the Consideration. As such, the amount of Consideration falls within the range of the valuation derived from the comparable company multiple approach. This is consistent with the Company's understanding of the generally accepted pricing strategy for waste-to-energy and water treatment business.

Conditions precedent

Completion is conditional upon the satisfaction of the following conditions precedent:

(a) the obtaining of the approval from the Independent Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules;

(b) the Listing Committee granting the listing of, and permission to deal in, the New Conversion Shares;

(c) where applicable, the obtaining of such consents, approvals and authorisation of the relevant regulatory authorities (including but not limited to the Stock Exchange) and relevant third parties which are required for the execution and performance of the transactions contemplated under the Sale and Purchase Agreement; and

(d) the Company and/or its subsidiaries having completed all necessary legal procedures for accepting the transfer of the Sale Interests (including but not limited to the entering into of equity transfer agreements for the sale of 80% equity interests in Ha'erbin Shuangqi, 100% equity interests in Beikong Shuyang, 100% equity interests in Beikong Wenchang and 65% equity interests in Hunan Hengxing).

The Company will use all reasonable endeavours (so far as it lies within its powers) to procure the satisfaction of the Conditions set out in paragraphs (a) to (d) above as soon as reasonably practicable and in any event before the Longstop Date and will promptly notify BEHL when each of the said Conditions have been satisfied.

BEHL will use all reasonable endeavours (so far as it lies within its powers) to procure the satisfaction of the Conditions set out in paragraphs (c) and (d) above as soon as reasonably practicable and in any event before the Longstop Date and will promptly notify the Company when each of the said Conditions have been satisfied.

None of the Conditions are waivable by the Company or BEHL.

If any of the Conditions are not fulfilled on or before 5:00 p.m. on the Longstop Date, BEHL (where the Company has failed to fulfill the Conditions applicable to it) or the Company (where BEHL has failed to fulfill the Conditions applicable to it) may by notice in writing elect to (a) postpone Completion to a later date or (b) terminate the Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the conditions have been fulfilled.

Completion

Completion will take place on the fifth business day after the Conditions have been fulfilled (or such other date as BEHL and the Company may agree in writing).

Following Completion, GSWM, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing will be held as to 100%, 80%, 100%, 100% and 65% by the Company, respectively. Accordingly, all the Target Companies will become subsidiaries of the Company.

THE NEW BONDS

At Completion, the Company will issue the New Bonds to BEHL (or its designated nominee) to satisfy the Consideration.

The New Conversion Shares will be issued under a specific mandate proposed to be sought from the Independent Shareholders at the EGM.

Set out below is a summary of the major terms of the New Bonds:

Issuer	:	The Company
Principal amount of the New Bonds	:	HK$2,202,300,000
Maturity date	:	The date falling on the fifth anniversary of the date of issue by the Company of the New Bonds
Initial conversion price	:	HK$1.13 per Conversion Share

The Initial Conversion Price was determined with reference to (i) the prevailing market price of the Shares i.e. (A) the closing price of HK$1.70 per Share as quoted on the Stock Exchange on the date of the Announcement; (B) the average closing price of HK$1.604 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement; and (C) the average closing price of HK$1.601 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement, which are commonly referred to as the reference price in the market, and was negotiated on an arm's length basis between the Company and BEHL and was determined after considering the relative large size of the Target Group compared with the Company's existing waste-to-energy projects, (ii) the low liquidity of the Shares and thus the lack of representativeness (i.e. a turnover ratio, which is a measure of stock liquidity calculated by dividing number of shares traded by number of shares outstanding, of 0.13% as at the date of the Announcement; average of 0.05% for the last five trading days up to and including the date of the Announcement and average of 0.04% for the last ten trading days up to and including the date of the Announcement) of the market price of the Shares, and (iii) the fact that the low profitability of the Company's solid waste business cannot support the market price of the Shares. No minimum conversion price was stipulated in the terms and conditions of the New Bonds.

In light of (ii) and (iii) above, the Company applied discounts on the reference price, resulting in a discount of approximately 33.53%, 29.55% and 29.42% to (A), (B) and (C) above, respectively.

The Initial Conversion Price is subject to adjustment upon the occurrence of certain prescribed events, including:

(i) consolidation or subdivision of Shares;

(ii) capitalization of profits or reserves;

(iii) extraordinary distributions;

(iv) rights issues of Shares or options over Shares;

(v) rights issues of other securities;

(vi) issue (other than the event set out in paragraph (iv) above) wholly for cash of any Shares (other than Shares issued on the exercise of conversion rights), at a price per Share which is less than 95% of the Current Market Price; or

(vii) issue or grant of, whether for cash or otherwise, options, warrants or other subscription rights, at a price per Share which is lower than the fair market value (as determined by two leading independent investment banks) on the last business day preceding the date of announcement of the terms of such issue;

whereby in the case of (vi), the Initial Conversion Price shall be adjusted by multiplying the conversion price in force immediately before such issue by a multiple factor comprising the Current Market Price and the total number of Shares in issue immediately before such issue; and in the case of (vii), the Initial Conversion Price shall be adjusted by multiplying the conversion price in force immediately before such issue by a multiple factor including the Current Market Price, and fair market value which would be determined by two leading independent investment banks and the total number of Shares in issue immediately before such issue, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; and (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment banks) the fair market value of such options, warrants or other rights shall equal to the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded. The independent investment banks shall act as experts to determine what adjustment (if any) to the conversion price is fair and reasonable and shall consider in good faith to reflect the intentions of the provisions of the New Bonds.

This is a common term included in the terms and conditions of the New Bonds without referring to any specific circumstances. It is expected that the circumstances in which the Company would seek to avail itself to this flexibility to be extremely limited. As summarised above, there is a requirement to consult with two independent investment banks in making the adjustment to the Initial Conversion Price, and the determination would be made by these independent investment banks, but not by the Company.

The Company will publish an announcement upon any adjustment to the Initial Conversion Price of the New Bonds.

The Company considers any adjustment by reference to such multiple factor to be fair and reasonable in balancing interests of holder(s) of the New Bonds, the Company and the Shareholders as a whole given the multiple factor is a pre-determined formula comprising objective and published information. The Company also considers any adjustment by reference to such multiple factor to be fair and reasonable to all Shareholders as a whole as any such adjustment so carried out would not itself be conferring any additional benefit to holder(s) of the New Bonds as against the Shareholders in the context of the relevant event triggering the adjustment. The Company therefore considers that foregoing events of adjustment are normal and customary of their kind.

The Initial Conversion Price represents:

(a) a discount of approximately 33.53% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange on 31 March 2016, being the date of the Company's announcement regarding the Acquisition and the New Bonds (the "Announcement");

(b) a discount of approximately 29.55% to the average closing price of HK$1.604 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement;

(c) a discount of approximately 29.42% to the average closing price of HK$1.601 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement;

(d) a discount of approximately 30.25% to the closing price of HK$1.62 per Share as quoted on the Stock Exchange on 21 June 2016, being the Latest Practicable Date;

(e) a discount of approximately 18.29% to the audited net asset value of the Group of approximately HK$1.383 per Share as at 31 December 2015, being the date to which latest published consolidated financial statements of the Company were made up to.

The holders of the New Bonds shall have the rights at any time during the period commencing from the date of issue of the New Bonds and ending on the maturity date to convert the New Bonds in whole, or in any part representing at least HK$100,000 of the outstanding principal amount of the New Bonds, into the New Conversion Shares at the applicable conversion price.

Ranking	:	The New Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with the other Shares in issue as at the date of issue of the New Conversion Shares.
Interest	:	The New Bonds shall be non-interest bearing.
Transferability	:	The New Bonds may be transferable in whole or in part in multiples of HK$100,000, provided that if necessary, the prior approval of the Stock Exchange shall be required for any transfer to any transferee which is a connected person (as defined in the Listing Rules) of the Company.
Early Repayment	:	At any time following the second anniversary of the date of issue of the New Bonds, the holder(s) of the New Bonds shall have the right at such holder's option to demand by giving three-months prior written notice to the Company for repayment of the aggregate amount of the outstanding New Bonds held by such bondholder which would have become payable on the maturity date of the New Bonds.

Voting rights : The New Bonds do not confer on the holder(s) of the New Bonds the right to vote at a general meeting of the Company.

Events of default : On the occurrence and subsequent continuation of certain events of default specified in the terms and conditions of the New Bonds (that is, failure to pay the principal, interest, premium or otherwise in accordance with the terms and conditions of the New Bonds, a continuing default in the performance or observance by the Company or any of its subsidiaries of any obligations under the terms and conditions of the New Bonds, winding up, liquidation or dissolution of the Company or any of its subsidiaries, the taking of possession of or the appointment of a receiver over the assets of the Group, the Company or any of its subsidiaries ceasing or threatening to cease to carry on its business or a material part thereof taken as a whole, the Company or any of its subsidiaries being unable to fulfill any of its obligations regarding financial indebtedness or the initiation of proceedings and other arrangements with creditors including those in respect of bankruptcy or insolvency, any prolonged suspension of trading of the Shares on the Stock Exchange, if it shall become unlawful for the Company to perform its obligations under the Sale and Purchase Agreement, any litigation, arbitration, prosecution or other legal proceedings (whether threatened or otherwise) outstanding against the Company or any of its subsidiaries which may have a significant financial impact on the Group and/or may have a material adverse effect on the operations or the financial position of the Group taken as a whole, and any material misrepresentation or breach of warranty made by the Company in respect of the Sale and Purchase Agreement), the holder(s) of the New Bonds shall be entitled to demand repayment of the relevant New Bonds.

Listing : No application will be made for the listing of the New Bonds on the Stock Exchange or any other stock exchange.

Public float	:	The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with. It will be a term of the New Bonds that the holder(s) of the New Bonds shall not exercise any of the conversion rights attaching to the New Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

5. Basis of determining the Consideration

With the reference made to the Letter from the Board, we note that the Consideration payable by the Company to BEHL is RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000, which has been arrived at after arm's length negotiations between the Company and BEHL after taking into account among other things:

(I) the then available financial information of the Target Group for the year ended 31 December 2015, in particular, the net asset value of the Target Group as at 31 December 2015, being approximately RMB1,132,971,000 (equivalent to approximately HK$1,365,024,000); and

(II) an independent study of:

1) comparables transactions related to companies with business similar to that of the Target Group with reference to transactions a) in the waste-to-energy treatment industry, in particular (i) MBK Partners and Hudson Clean Energy Partners disposing of their controlling stake in Golden State Environment Group Corporation; (ii) Transpacific Industries Group Ltd. Disposing of its waste management business in New Zealand to Beijing Capital Group Company Ltd; and (iii) the Company acquiring an interest in and shareholders' loan of KCS Taian Investments Company Limited and KCS Changde Investments Company Limited from Khazanah Nasional Berhad, and b) in the water treatment industry, including by not limited to, (i) China Everbright Water Ltd, acquiring a 100% equity interest of Dalian Dongda Water Co., Ltd; and (ii) SIIC Environment Holdings Ltd. Acquiring a 92% equity interest in Fudan Water Engineering & Technology Co., conducted in 2014 and 2015 and taking into account key-value indicators such as enterprise value/EBITDA for such transactions); and

2) the comparable company multiple approach (prepared with reference to the price to earnings ratios of comparable companies engaged in waste-to-energy or water treatment businesses that are listed on the Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange), such as Dynagreen Environmental Protection Group Co., Ltd, China Everbright International Limited, Dongjiang Environmental Company Limited and Capital Environment Holdings Limited.

Based on the comparable precedent transaction approach, the equity value of the Target Group is between RMB1,620 million to RMB2,300 million calculated by enterprise value/EBITDA, and RMB2,960 million to RMB3,640 million calculated by the price-earnings ratio. Based on the comparable company multiple approach, the equity value of the Target Group is between RMB1,390 million to RMB2,170 million calculated by the 2015 estimated trading multiples, and between RMB820 million to RMB1,760 million calculated by the 2016 estimated trading multiples. Based on the price-to-book ratio as the time of the independent study of market comparables, the equity value is between RMB1,480 million to RMB2,200 million.

As transactions in the waste-to-energy sector is limited, the valuation based on the comparable transactions precedent approach is (i) biased toward the water treatment sector; and (ii) higher than the valuation derived from the comparable company multiple approach. Accordingly, the market comparable study suggested to exclude the valuation derived from the comparable precedent transaction approach in determining the Consideration. As such, the amount of Consideration falls within the range of the valuation derived from the comparable company multiple approach. This is consistent with the Company's understanding of the generally accepted pricing strategy for waste to- energy and water treatment business.

In terms of comparable companies analysis, we note that the choice of comparable companies selected by the Company for the purpose of determining the Consideration is broadly in line with the comparable universe that we have independently selected.

We also note that the Company has not included comparable transactions as the basis to determine the Consideration, due to the heavy bias toward the water treatment sector. In our analysis detailed below, we have included the analysis of comparable transactions on a more limited transaction subset, excluding transactions related to the water sector. In any event, our analysis of the comparable transactions supports the Target Group valuation outcome as per the Company analysis and as such we are of the view that the basis to determine the Consideration is fair and reasonable.

Furthermore, we note from the management of the Company that the valuation of 3 out of 5 Target Companies (Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing as set out in Appendix VI to this Circular) as per the Business Valuation Report was not taken into account for the purpose of determining the Consideration but only as an additional valuation references in relation to the 3 Target Companies.

5.1 Business Valuation Report

In order to assess the basis in determining the consideration of the Acquisition, we have reviewed the Business Valuation Report produced by Crowe Horwath (HK) Consulting & Valuation Limited (the "Valuer") and discussed with the Valuer and the management of the Company. We have reviewed and enquired the Valuer's qualification and experience in relation to the performance of the valuation. We understand that the Valuer has sufficient qualifications and experience in valuing similar assets and transactions over the years. We further understand that the Valuer is independent from the Company and the other parties involved in the Acquisition. In addition, we have also reviewed the terms of the engagement of the valuation and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuer. Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified for valuing Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing.

(i) Valuation methodologies

We understand from the Valuer that they have adopted the income approach in valuation. We understand that the Valuer has considered three valuation approaches, including the asset-based approach (an approach to evaluate the value of various assets and liabilities on and off the balance sheet of target company in a reasonable manner and determine the value of valuation subject on the basis of the balance sheet as at Benchmark Date), income approach (essentially an approach to estimate the future economic benefits and discount these benefits to its present value using a discount rate) and market approach (an approach by comparison of the prices at which other similar business nature companies or equity interest in companies that were recently sold). Asset-based approach is not adopted by the Valuer, as this approach does not take into account the future growth potential. The market approach is not applied by the Valuer due to the difficulty in identifying sufficient market transactions as comparables.

Income approach is adopted by the Valuer, given the relative predictability and viability of future economic inflows. The Valuer applied the discounted cash flow method ("DCF") to discount the future free cash flow ("FCFF") at a discount rate (i.e. weighted average cost of capital ("WACC")) to reflect all business risks including intrinsic and extrinsic uncertainties.

(ii) Discount rate

WACC is a commonly used discount rate by multiplying the cost of each capital component by its proportional weight and then summing. In estimating the required rate of return on equity ("Ke"), the Valuer has adopted the capital assets pricing model, which is generally accepted model in estimating Ke. We understand from the Valuer that the equation of Ke is "Ke = Rf + β*ERP + Rc", where

– "Rf" refers to risk free rate which is based on 10-year China government bond yield;

– "β", beta, represents the sensitivity of the expected excess asset returns to the expected excess market returns, which is calculated from the unlevered beta of comparable publicly listed companies in Hong Kong and the PRC in similar industry selected by the Valuer as at Benchmark Date and taking into account the capital structure;

– "ERP" stands for market risk premium which is the rate of return required by equity investors beyond the risk free rate; and

– "Rc" refers to the size premium and specific risk premium of the valued company. Given that Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing are private companies and relatively small in terms of the business size compared with comparable publicly listed companies, the Valuer has applied 3.74% and 1% as size premium and specific risk premium, respectively, to reflect the other specific risks.

In determining the required rate of return on debt ("Kd"), the Valuer has applied prevailing 5-year prime lending rate of 4.90% and used 25% as corporate tax rate. WACC is then arrived by summing the proportional weight of Ke and after-tax Kd.

We have discussed with the Valuer and reviewed the detailed analysis in determining the discount rate. We understand that the discount rate is determined with reference to the publicly available data adjusted by company's capital structure and specific risk and based on the professional judgment and internal research of the Valuer. We are of the view that the discount rate adopted in the valuation is fair and reasonable.

(iii) Cash flow forecast

In applying the DCF method, the FCFF for each year is determined by the management of Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing. FCFF is the cash available to all investors, including both equity holders and debt holders. The future economic benefits are mainly represented by a year-by-year projection of FCFF for a period starting from January 2016 to the respective expiry dates of the BOT contracts. In assessing the fairness and reasonableness of the FCFF, the Valuer has examined the historical financial results and conducted its own industry research to cross check the reasonableness of the projected FCFF given by the management.

After review of the Business Valuation Report and discussion with the Valuer, we understand that FCFF is calculated by deducting tax impact, capital expenditure and working capital changes from the earnings before interest and tax, and then adding back the depreciation and amortization. We consider that the calculation of FCFF applied by the Valuer is appropriate.

In accordance with Rule 14.62 of the Listing Rules, the Company has engaged Ernst & Young who have reported to the Directors regarding the calculations of the discounted cash flow forecast used in the valuation. In their opinion, the discounted cash flow forecast, so far as the arithmetical accuracy of the calculations of the discounted cash flow forecast is concerned, has been properly complied on the basis of the assumptions made by the Directors. The Directors have confirmed that the profit forecasts upon which the valuation has been made, for which they are solely responsible, have been made after due and careful enquiry.

(iv) Other assumptions

In conducting the valuation, the Valuer has made the following key assumptions: (i) the valuation is based on the assumption of continuous operation of Ha'erbin Shuangqi, Beikong Shuyang and Hunan Hengxing; (ii) there will be no material changes in politics, laws or regulations, or financial or economic or market conditions which may adversely affect the business operation; (iii) there will be no major changes in the current taxation law; (iv) there will not be any adverse events beyond the management's control; (v) any financial statements or other information provided in connection with the valuation is true, lawful, complete and credible; etc.

We believe that these key assumptions are generally adopted in similar valuation activities and are necessary for the Valuer to arrive at a reasonable estimated valuation. We are therefore satisfied that the abovementioned major assumptions are fair and reasonable in relation to the Business Valuation Report.

Having considered (i) the independence, qualification and experience of the Valuer; and (ii) the relevant application of the valuation methodology, we are of the view that the valuation was carried out on a fair and reasonable basis by the Valuer and we concur with the Valuer's opinion. As such, we consider the valuation is a fair reference for Independent Shareholders to assess the fairness and reasonableness of the Consideration of the Acquisition.

5.2 Analysis of Comparable Companies

In order to assess the fairness and reasonableness of the consideration of Target Companies, we have performed a trading multiple analysis. We have attempted to identify comparable companies (the "Comparable Companies") that (i) are current listed on the Main Board of the Stock Exchange of Hong Kong; (ii) are primarily engaged in waste treatment business or waste management services and generating more than 50% of total revenue from such businesses and services; and (iii) with market capitalization of HK$2 billion or above.

We also note that the Comparable Companies generated over 99% of the total revenues within PRC as at the end of 2015, and as such we consider that them to be comparable to the Target Companies. The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. In our assessment, we have considered price-to-earnings ratio ("P/E") and price-to-book ratio ("P/B"), which are commonly used as benchmarks to assess the financial valuation of a company engaged in the waste treatment business.

Set out below are the implied P/Es and P/Bs of the Comparable Companies based on their closing prices as at the Latest Practicable Date and their latest published financial information:

Table 8: Comparable Companies analysis on P/E and P/B ratio

Company Name	Ticker	Principal Business	Operating Locations/Areas	Market Cap *(HK$m)*	P/E	P/B
China Everbright International	257 HK	Providing environmental protection project management and consultancy services such as environmental energy and	multiple areas in PRC (generated 99.9% of total revenues in 2015); Germany (generated 0.1% of total revenues in 2015)	37,744	18.72	2.20
Canvest Environment	1381 HK	Focusing on the development managemnt and operation of waste-to-energy plants	multiple areas in PRC (generated 100% of total revenues in 2015)	7,242	26.16	3.05
Dynagreen Environmental	1330 HK	Operating waste incineration plants for the production of energy	multiple areas in PRC (generated 100% of total revenues in 2015)	3,574	11.87	1.20
Dongjiang Environmental Co	895 HK	Treating industrial and municipal waste and provides value-added support services	multiple areas in PRC (generated 100% of total revenues in 2015)	16,291	30.25	3.27
				Maximum	30.25	3.27
				Minimum	11.87	1.20
				Average	21.75	2.43
Target Companies value of Consideration					**21.36** *(Note 1)*	**1.81** *(Note 2)*

Source: Bloomberg, HKEx

* *we have also considered Capital Environment Holdings Limited (3989 HK) as our one of the Comparable Companies. However, since its P/E traded at over hundred times based on the calculation by dividing current market capitalisation by net profit for the year ended 31 December 2015. The main reason of such exceptionally high P/E ratio is due to the low profit margin and slowing profit growth but trades at a higher price per share. Therefore, we think that such high P/E should be excluded and less comparable for the purpose of the comparable analysis.*

Note:

(1) The implied P/E of the Target Companies is calculated by dividing the total Consideration by total profits of the Target Companies from unaudited pro forma consolidated statement of profit or loss for the year ended 31 December 2015.

(2) The implied P/B of the Target Companies is calculated by dividing the total Consideration by total equity attributable to the owners of the Target Companies from unaudited pro forma consolidated statement of financial position for the year ended 31 December 2015.

As illustrated in Table 8, the P/B of the Comparable Companies ranges from approximately 1.20 times to approximately 3.27 times (the "Comparable Companies P/B Range") with an average of 2.43 times (the "Average Comparable Companies P/B"). The P/E of the Comparable Companies ranges from approximately 11.87 times to approximately 30.25 times (the "Comparable Companies P/E Range") with an average of 21.75 times (the "Average Comparable Companies P/E Range"). We note that the implied P/E of Target Companies is 21.36 times which is below the Average Comparable Companies P/E and within the Comparable Companies P/E Range, while the implied P/B of Target Companies is 1.81 which is below the Average Comparable Companies P/B and within the Comparable Companies P/B Range. Since the implied P/E of the Target Companies is below the Average Comparable Companies P/E and within the Comparable Companies P/E Range and the implied P/B of the Target Companies is lower than the Average Comparable Companies P/B, we are of the view that the total Consideration for acquiring the Target Companies is fair and reasonable to the Company and the Shareholders.

5.3 Analysis of comparable transactions

In order to assess the fairness and reasonableness of the Consideration of Target Companies, we have also attempted to identify transactions (the "Comparable Consideration Transactions") that (i) were announced by companies over the past 5 years; (ii) involved acquisition of similar line of business as Target Companies, i.e. waste treatment businesses, waste to energy business; (iii) with deal size of HK$500 million or above; (iv) acquired equity stake over 10% of the target company issued capital and (v) the target companies based in PRC.

The Comparable Consideration Transactions have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. In this assessment, we have considered P/E and P/B as our benchmark to assess the financial valuation of Target Companies. Set out below are the implied P/E and P/Bs of the Comparable Consideration Transactions based on the value of consideration and the latest available financial information:

Table 9: Comparable Transactions analysis on P/E and P/B

Date	Acquirer	Target company	Percentage of stake acquired	Transaction Value *(HK$m)*	P/E *(note 1)*	P/B *(note 2)*
November 2011	China Three Gorges Corporation	China Power New Energy (735 HK)	29%	9,100	41.94	1.78
April 2013	Hony Capital	Shanghai Chengtou Holding Co., Ltd (600649 SHA)	10%	2,151	13.37	1.32
February 2014	Beijing Development (Hong Kong) Limited	KCS Taian and KCS Changde which wholly owned by KCS Green Energy International	100%	666	17.83	1.13 *(note 3)*
				Maximum	41.94	1.78
				Minimum	13.37	1.13
				Average	24.38	1.41
Target Companies value of Consideration					**20.52**	**1.61**

Source: Bloomberg, HKEx, Shanghai Stock Exchange, latest financial reports of the Comparable Transactions Companies

Note:

(1) The P/E of the Comparable Consideration Transaction is calculated by dividing the transaction value by the net profit of the target company of the relevant financial year or from the pro forma financial statement, which multiplied by the percentage of stake acquired.

(2) The P/B of the Comparable Consideration Transaction is calculated by dividing the transaction value by the NAV of the target company of the relevant financial year or the pro forma financial statement, which multiplied by the percentage of stake acquired.

(3) The calculations considers the acquired Shareholder Loan as Book Value of Shareholder Equity.

As showed in Table 9 above, the P/E of the Comparable Consideration Transactions range from approximately 13.37 times to approximately 41.94 times (the "Comparable Consideration Transactions P/E Range") with an average of approximately 24.38 times (the "Average Comparable Consideration Transactions P/E"), while the P/Bs of the Comparable Consideration Transactions range from approximately 1.13 times to approximately 1.78 times (the "Comparable Consideration Transactions P/B Range"), with an average of approximately 1.41 times (the "Average Comparable Consideration Transactions P/B").

We note that the implied P/E of Target Companies is approximately 20.52 times which is below the Average Comparable Consideration Transactions P/E and within the range of Comparable Consideration Transactions P/E Range. While the implied P/B of Target Companies is 1.61 times is higher than the Average Comparable Consideration Transactions P/B, it is in line with the Comparable Consideration Transactions P/B Range. As such, the comparison result illustrates that the Consideration of the Target Companies is broadly consistent with the market transactions comparables which we consider the most relevant.

In addition, while considering the fairness and reasonableness of the Consideration with comparable companies and transactions, we should also take into account other important factors such as (i) the increase in Company's operational capacity after the acquisition of waste treatment projects which have a total design capacity of 5,907 tonnes per day; (ii) the enhancement in corporate governance and control over waste treatment business of Target Companies; (iii) it is part of the business development strategy of the Company to make further acquisitions in the waste management sector; (iv) the increasing scale and robust demand growth of the waste treatment and environmental protection industry, driven by strict law enforcement towards waste treatment and waste to energy business; and (v) business consolidation will create a series of synergies with the existing portfolio to enhance the overall structure and competitiveness of the Company.

Therefore, having considered the above factors and results of Comparable Companies and Comparable Consideration Transactions analysis, we are of the view that the Consideration of the Acquisition of the Target Companies is fair and reasonable is this regard.

5.4 The New Bonds

The total Consideration of RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000) will be settled by way of issue of the New Bonds.

The Principal terms of the New Bonds have been set out in the Letter from the Board in the Circular. The Initial Conversion Price HK$1.13 per Conversion Share represents:

- a discount of approximately 33.53% to the closing price of HK$1.70 per Share as quoted on the Stock Exchange on 31 March 2016, being the date of the Company's announcement regards the Acquisition and the New Bonds (the "Announcement");

- a discount of approximately 29.55% to the average closing price of HK$1.604 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement;

- a discount of approximately 29.42% to the average closing price of HK$1.601 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement;

- a discount of approximately 30.25% to the closing price of HK$1.62 per Share as quoted on the Stock Exchange on 21 June 2016, being the Latest Practicable Date;

- a discount of approximately 18.29% to the audited net asset value of the Group of approximately HK$1.383 per Share as at 31 December 2015, being the date to which latest published consolidated financial statement of the Company were made up to.

As further discussed with the management of the Company, we realize that the Company had insufficient cash and bank balances to settle the Consideration in cash. The Company also considered debt or equity financing. Having considered the financial condition of the Company, management determined that it would not be feasible a) for the Company to obtain bank loans due to the lack of quality assets with would result in unfavourable interest rates and b) conduct equity financing due to the insufficiency of the Company's general mandate to settle the consideration. We concur with Company management that further debt financing will result in additional finance costs and higher gearing ratio of the Company. Moreover, considering recent overall sentiment of the stock market in Hong Kong (with HSI dropped from approximately 28,200 points in May 2015 to approximately 21,200 points in September 2015 and further dropped to approximately 19,400 points in early March 2016), the market conditions for equity financing are unfavourable and it would be uneconomical under such unstable market for the Company to place share and would lead to an immediately dilution effect to the Shareholders. Instead, the issue of the New Bonds by the Company represents a good opportunity to strengthen its asset base and without resulting in immediate dilution for the existing Shareholders. Also, when comparing with the cost of external borrowings and the prevailing loan interest rate, the New

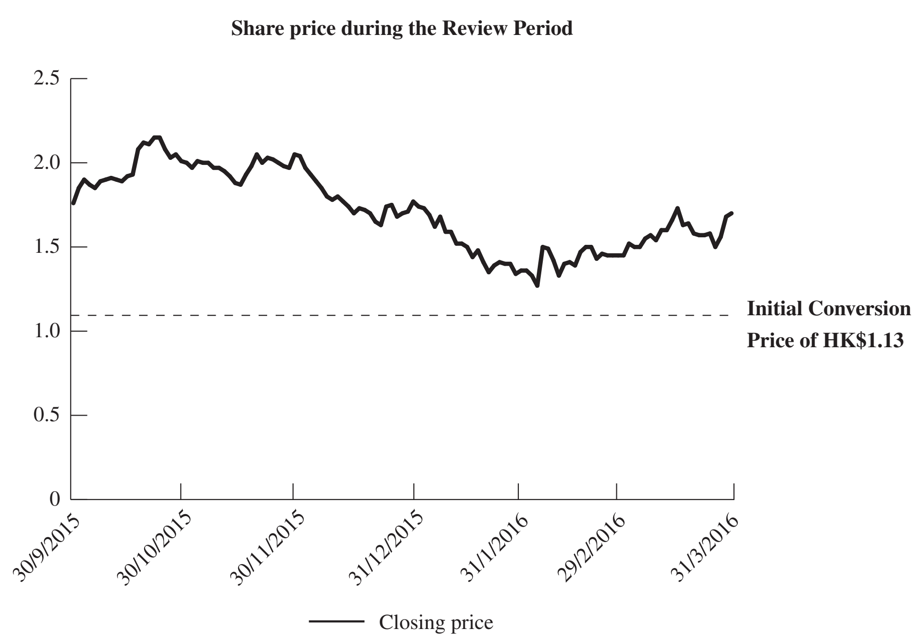
Bonds do not impose on the Company any burden related to interest repayment as the New Bonds are non-interest bearing. In light of the above, we are of the view that the issue of the New Bonds is the most effective fund raising method for settling the Consideration and it is in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness of the Initial Conversion Price, we have conducted the following analysis for illustrative purpose:

5.4.1 Review of historical price movement of the Shares

The following exhibit shows the historical price movement of the Shares from 30 September 2015 (being approximately half year prior to the date of the Sale and Purchase Agreement) up to the date of the Acquisition (the "Review Period").

Exhibit 1: historical price movement of the Shares



We note that the closing price of the Shares was relatively stable between HK$1.27 and HK$2.15, with an average closing price of approximately HK1.72 during the Review Period. The Initial Conversion Price as at HK$1.13 was below the range of the lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the Review Period, and represented a discount of approximately 11.02% to the lowest closing price of HK$1.27 recorded on 3rd February 2016 and a discount of approximately 47.44% to the highest closing prices of HK$2.15 recorded on 23 October 2015 and 26 October 2015 respectively. We also observed that the share price of the Company after reached the highest price of HK$2.15 and subsequently started to fall gradually and had been on a downtrend to reach its bottom on 3rd February 2016, led by negative news on the macro-economic environment and related impact on the Hong Kong equity market.

5.4.2 Trading liquidity

The following Table 10 sets out the trading volume during the Review Period

Table 10: Trading volume during the Review Period

Month	Total Monthly trading volume *(in number of Shares)*	Approx. average daily trading volume (the "Average Volume") *(in number of Shares)*	Average Volume to total number of issued Shares as at the date of the Acquisition *(Approx. %) (Note)*
2015			
October	12,185,000	609,250	0.0406%
November	7,104,200	338,295	0.0225%
December	7,870,177	374,770	0.0250%
2016			
January	5,288,000	264,400	0.0176%
February	3,776,000	209,778	0.0140%
March (including 31 March)	9,139,622	456,981	0.0305%
Average	7,560,500	375,579	0.0250%

Note: Based on 1,500,360,150 Shares in issue as at the date of the Acquisition

As illustrated by the Table 10 above, the average daily trading volume of the Shares was in the range of approximately 0.0140% to approximately 0.0406% of the total number of issued Shares as at the date of the Acquisition with an average of approximately 0.0250%. As such, we concur with the Management of the Company that the trading liquidity of the Shares during the Review Period was relatively low.

Based on the average daily trading volume over the Review Period of approximately 375,579 Shares, it will take approximately 5,189 days to fully dispose up to 1,948,938,053 New Conversion Shares. Accordingly it is commercially justifiable to consider issuing New Conversion Shares at an higher than average discount to the prevailing market price given the higher liquidity risk.

5.4.3 Analysis of comparable transactions with the issue of convertible bonds

In order to assess the fairness and reasonableness of the Conversion Price, we have also reviewed transactions announced by companies listed on the Main Board of the Stock Exchange involving the issuance of convertible bonds which exercises under both general mandate and specific mandate but excluding the issuance of secured convertible bonds or with equity pledged (the "Issuance Comparables") during the six months immediately prior to the date of the Acquisition.

The Issuance Comparables have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours and as far as we are aware of, in our research through public information.

We note that the companies involved in the Issuance Comparables are not engaged in the same principal business of the Company and they are of different market capitalizations, the targets involved are of different nature and size, and the terms of convertible bonds of each of the transactions may be subject to their respective circumstances such as different financial standing or business performance. However, since the Issuance Comparables were transacted at a time close to the date of the Acquisition under the relative similar market conditions, we are of the view that the Issuance Comparables, although not to be used in isolation in determining the fairness and reasonableness of the conversion price, nevertheless can provide a general reference basis to the Independent Shareholders as they can reflect recent market trends of the terms used in issuing convertible bonds as full or partial settlement of consideration. As such we consider that the Issuance Comparables are fair and representative samples.

Table 11: Issuance Comparables analysis

Date of Announcement	Company Name	Ticker	Conversion Price *(HK$)*	Maturity Date *(No. of Years)* *(Note 1)*	Interest *(% p.a.)*	Premium/(discount) of the conversion price over/(to) the closing price prior to/ on the date of the announcement	average closing price of last 5 consecutive trading days up to and including the date of the Announcement	average closing price of last 10 consecutive trading days up to and including the date of the Announcement
29/03/2016	China Environmental Technology	646 HK	0.130	2	2.00%	(7.80%)	(13.68%)	(14.59%)
28/03/2016	Innovative Pharmaceutical Biotech	399 HK	1.000	3	8.50%	(9.09%)	(7.75%)	(9.91%)
18/03/2016	China Fortune Financial Group	290 HK	0.130	1	12.00%	(9.09%)	(8.06%)	(4.83%)
16/03/2016	Prosperity International Holdings	803 HK	0.210	2 *(Note 2)*	5.00%	(6.25%)	(7.65%)	(7.33%)
04/03/2016	China Household Holdings Limited	692 HK	0.100	3	3.00%	(6.54%)	(7.06%)	(6.98%)
01/03/2016	National United Resources	254 HK	0.152	2	4.50%	(18.28%)	(11.42%)	(10.48%)
26/01/2016	Sino Oil and Gas Holdings	702 HK	0.207	2	8.00%	10.70%	14.62%	14.24%
22/01/2016	Tibet 5100 Water Resources	1115 HK	4.000	3	6.00%	42.86%	45.56%	43.32%
20/01/2016	Huajun Holdings	377 HK	1.000	3	3.50%	12.36%	11.11%	8.46%
19/01/2016	China Railway Construction	1186 HK	10.300	5	0.00%	38.44%	34.22%	26.88%
29/12/2015	Top Spring International	3688 HK	3.829	3	6.00%	2.11%	5.66%	6.81%
23/12/2015	Great Harvest Maeta Group	3683 HK	1.096	5	0.00%	(5.52%)	(5.35%)	(4.20%)
15/12/2015	China Innovative Finance Grouop	412 HK	0.720	2	8.00% *(Note 3)*	(14.29%)	(14.29%)	(13.46%)
04/12/2015	Blue Sky Power Holdings	6828 HK	0.480	3	5.00%	(12.73%)	(4.95%)	0.21%
02/12/2015	Landsea Green Properties	106 HK	0.933	Perpetual	0.00%	29.58%	32.15%	31.97%
27/11/2015	Green International Holdings	2700 HK	0.200	1	8.00%	(11.89%)	(12.20%)	(13.72%)
16/11/2015	SMI Holdings	198 HK	0.770	2 *(Note 2)*	4.00%	(3.75%)	(4.94%)	(1.16%)
05/11/2015	Jimei International Entertainment	1159 HK	5.000	3	8.00%	(11.50%)	(5.16%)	(1.57%)
27/10/2015	CCT Land	261 HK	0.010	3	0.00%	(47.37%)	(47.92%)	(49.24%)
14/10/2015	Baofeng Modern	1121 HK	0.840	3	0.00%	(9.68%)	(8.70%)	(9.09%)
09/10/2015	National United Resources	254 HK	0.265	2	4.50%	(18.46%)	(6.69%)	(5.53%)
				Maximum	12.00%	42.86%	45.56%	43.32%
				Minimum	0.00%	(47.37%)	(47.92%)	(49.24%)
				Average	4.57%	(2.68%)	(1.07%)	(0.96%)
				The Company	**0.00%**	**(33.53%)**	**(29.55%)**	**(29.42%)**

Source: HKEx

Note(s):

1. Counting from the date of issue of the Convertible Bonds

2. Maturity Date can be extended at the bondholder's sole and absolute discretion to the date falling on the third anniversary of the Issue Date

3. Commencing from 22 June 2016

As shown in Table 11, the conversion price of the Issuance Comparables ranged from a discount of approximately 47.37% to a premium of approximately 42.86% to/over the closing price prior to/on the date of the Announcement (the "Market Range I") with an average discount of approximately 2.68% (the "Market Average I"), from a discount of approximately 47.92% to a premium of approximately 45.56% to/over the average closing price of last 5 consecutive trading days up to and including the date of the Announcement (the "Market Range II") with an average discount of approximately 1.07% (the "Market Average II"), from a discount of approximately 49.24% to a premium of approximately 43.32% to/over the average closing price of last 10 consecutive trading days up to and including the date of the Announcement ("the Market Range III") with an average discount of approximately 0.96% (the "Market Average III").

We note that the conversion price represents a discount of approximately 33.53% to the closing price prior to/on the date of the Announcement (the "Conversion Price Discount I"), a discount of approximately 29.55% to the average closing price of last 5 consecutive trading days prior to or on the date of the Announcement (the "Conversion Price Discount II"), a discount of approximately 29.42% to the average closing price of last 10 consecutive trading days prior to or on the date of the Announcement (the "Conversion Price Discount III").

We further note that the interest rate of Issuance Comparables ranged from minimum of 0% to maximum of 12.0% with an average of 4.57%. Also, we found that the 16 out of 21 Issuance Comparables are interest bearing. Considering that the Company has no burden on interest repayment as the New Bonds are non-interest bearing, the coupon structure of the New Bonds is more beneficial than the market average. Therefore, we are of the view that the issuance of New Bonds is in the interest of the Company and its Shareholders.

Given that (i) the Conversion Price Discount I is more than the Market Average I and within the Market Range I; (ii) the Conversion Price Discount II is more than the Market Average II and within the Market Range II; (iii) the Conversion Price Discount III is more than the Market Average III and within the Market Range III; (iv) the conversion prices of 15 out of the 21 Issuance Comparables were set at discount to the respective market prices; (v) the relatively low trading liquidity of the Shares; and (vi) zero coupon rate of the New Bond, we are of the view that the Conversion Price is fair and reasonable to the Independent Shareholders based on the Issuance Comparable analysis.

6. Potential dilution effect on the shareholding structure of the Company

With reference to the shareholding structure of the Company as set out in the section headed "Impact on the Shareholding Structure of the Company" in the Letter from the Board. Upon issue of the Convertible Bonds and assuming none of the conversion rights attached to the Convertible Bonds have been exercised, there will be no change to the shareholding structure of the Company. Upon full conversion of the Outstanding Bonds but before the issue of the New Conversion Shares upon full conversion of the New Bonds, the shareholding of the public Shareholders will be diluted from approximately 25.744% to approximately 17.554%. Upon full conversion of the Outstanding Bonds and the issue of the New Conversion Shares upon full conversion of the New Bonds, the shareholding of the public Shareholders will be diluted from approximately 25.744% to approximately 9.309%.

We understand from the management of the Company that under the terms of the Outstanding Bonds and the New Bonds, the BEHL Group will not exercise any of the conversion rights attaching to the Outstanding Bonds and the New Bonds in the near future in order to maintain the minimum public float. In any event, the issue of the New Bonds will not result in a change of control in the Company.

Taking into account the above factors, in particular, the followings:

(i) the fairness and reasonableness of the Consideration as discussed in the subparagraph headed "Principal terms of the New Bonds" above;

(ii) the discount of the Conversion Price to the closing price of the Shares falls within the range of the Convertible Bond Comparables;

(iii) the Convertible Bond is non-interest bearing; and

(iv) the settlement of the Consideration by way of issue of the New Bonds could preserve the cash resources of the Group,

we are of the opinion that the dilution effect to the shareholding of the Independent Shareholders in the event of the issue of the New Bonds is acceptable so far as the Independent Shareholder are concerned.

7. Financial effects of the Acquisition

Upon the Completion of the Acquisition, the Target Group will become a subsidiary of the Company, and the financial results, assets and liabilities of the Target Group will be fully consolidated into the financial statements of the Group.

7.1 Effect on earnings

As disclosed in the 2015 Annual Report, the profit for the year of the Company for the year ended 31 December 2015 was approximately HK$84.0 million. Upon completion of the Acquisition, the result of the Target Group (aggregate net profit of approximately HK$107.3 million for the year ending 31 December 2015) will be consolidated into the consolidated financial statements of the Group. As such, the Acquisition would have a positive financial impact on the Group's recurring earnings but the precise financial impact cannot be estimated at this moment. As such, we consider that the Acquisition will have a potential positive impact on earnings of the Group.

7.2 Effect on net assets value

With reference to the 2015 Annual Report, the audited consolidated net asset value of the Group was approximately HK$2,098.9 million as at 31 December 2015. Although the consideration of the Acquisition is at a premium to the net asset value of the Target Group, we consider that such premium could be allocated as goodwill, with no direct impact to the net asset value of the Group after the Acquisition. According to the Pro forma Financial Information, the net asset value of the Enlarged Group will increase to approximately HK$2,359.9 million. Therefore we consider the Acquisition will potentially have a positive impact on the net asset value of the Group.

7.3 Effect on gearing

According to the 2015 Annual Report, the Group has a net cash position as at 31 December 2015. According to the Pro forma Financial Information in the Appendix V of the Circular, upon completion of the Acquisition, the net financial debts of the Group would be approximately HK$2,502.4 million and the gearing level of the Group (calculated by dividing net financial debts by total equity) would be approximately 106.0%, as the Target Group has higher gearing levels and the Acquisition is satisfied by issue of New Bonds. Also in consideration of the non-interest bearing nature of the New Bonds, we consider the gearing level would be acceptable post transaction.

7.4 Effect on cash/working capital

As disclosed in the 2015 Annual Report, the Group had current assets of approximately HK$2,260.3 million including cash and cash equivalents of approximately HK$1,862.4 million. The Acquisition will be satisfied by the issuance of non-interest bearing New Bonds and hence there will be no negative impact on the cash flows of the Group in this regard. As stated in the Appendix V of the Circular, the current assets and cash and bank balances of the Enlarged Group will increase to approximately HK$3,144.6 million and approximately HK$2,083.1 million respectively after consolidation of the Target Group. As such, we consider that the Acquisition will have a potential positive impact on the cash position and the working capital of the Group.

We are of the view that the Acquisition will have an overall potential positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole, despite an increase in gearing.

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that (i) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM in relation to the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the New Bonds under the specific mandate) in accordance with the requirements under the Listing Rules.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Li Lan
Director and Co-head of Corporate Finance

Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over ten years of experience in corporate finance industry.

1. RISK FACTORS

When considering the Acquisition, please carefully consider the risk factors set out below and other materials set out in this circular. If any event set out below occurs, the Company's business, financial condition, results of operations, and prospects may be adversely affected. The risks and uncertainties set out below are not the only risks confronting the Company. Other risks and uncertainties the Company is not aware of or deems to be unimportant at present may also have an adverse effect on the Company's business, financial condition, results of operations and prospects.

There are risks involved in the business of the Target Group, many of which are beyond the Company's control. These risks can be categorised as (i) risks relating to the business of the Target Group; (ii) risks relating to the PRC; and (iii) risks relating to this circular.

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

The Target Projects have a limited period of operation and the Company may not be able to recuperate investment and generate desirable revenue as anticipated.

Under the respective concession agreements, the Target Group has a limited period to operate the WTE/hazardous waste and medical waste treatment plants until the expiry of such concession agreements. Upon the expiry of concession agreements, for all projects other than BOO projects, the ownership of and right to operate the plants will be transferred back to the relevant grantor(s) of concession rights.

In respect of Household Waste Treatment Projects, given that concession rights are for limited periods, the Company cannot estimate with certainty the payback periods of the investments as one of the main sources of the Target Household Waste Treatment Companies' revenue (i.e. on-grid tariffs) is subject to government price-setting. Any reduction in on-grid tariffs may also affect the Target Household Waste Treatment Companies' cash flow and their ability to service their debts.

If there are disruptions during the operation phase, the actual operation period of the Target Projects may be shorter than anticipated and the Target Projects may not be able to fully recuperate the Group's high capital investment cost or generate a desirable level of revenue. If the operating period is shortened or disrupted or should the Target Group lose the right to operate these plants before the expiration of the concession rights, the Group's business, financial condition and results of operations may be adversely affected.

The Target Household Waste Companies rely heavily on a single customer for sale of electricity.

Similar to other WTE industry players in the PRC, certain concession agreements between the relevant local governmental authorities and the Target Household Waste Companies provide for the sale of electricity to a single customer and the reliance on single customer may not be easily mitigated due to the nature of the regulatory regime, and such high level of reliance is unlikely to decrease in the foreseeable future. In contrast, the grid companies do not rely heavily on the Target Household Waste Companies in their purchase of electricity, as the Company believes that the Target Household Waste Companies are not major suppliers of the grid companies. Pursuant to PRC laws and regulations, as electricity generated from household waste treatment projects is renewable energy, grid companies are required to fully purchase on-grid electricity generated by these projects. If the PRC government's policy changes, it may not be possible for the Target Household Waste Companies to find alternative purchasers for the electricity generated by them.

Moreover, the contracts entered into by the Target Household Waste Companies with grid companies are short-term contracts with a valid term of one to five years. Since factors such as government regulatory policies are uncontrollable, the Target Group is unable to guarantee that such contracts may be successfully renewed upon expiry.

Any significant non-purchase, non-payment, non-compliance, insolvency or liquidation of the relevant local governmental authorities or changes in governmental policies in relation to mandatory purchase of electricity may make it difficult for the Target Household Waste Companies to find alternative purchasers and could materially and adversely affect the Target Group's business, financial condition and results of operations.

The operations of the grid companies that the Target Household Waste Companies rely on may be subject to significant disruptions.

While Target Household Waste Companies benefit from mandatory purchase obligations of grid companies, Target Household Waste Companies rely on the grid companies to construct and maintain the infrastructure and provide the necessary electricity transmission and dispatch services to connect their respective power plants to the local grids. The transmission and dispatch of the output of a facility may be curtailed as a result of various grid constraints, such as grid congestion and restrictions on transmission capacity of the grid. During the Track Record Period, Target Household Waste Companies has not experienced any grid congestion or constraints. Electricity transmission lines may experience unplanned outages due to system failures, accidents, severe weather conditions and other reasons beyond the control of the Target Household Waste Companies. Any failure or delays to secure grid connection will reduce power generation and limit the operational efficiencies of the Target Household Waste Companies, which in turn may adversely affect Target Household Waste Companies' business operations.

Waste-to-energy plants are highly dependent on the due performance of respective waste providers.

Household waste is the most significant raw material for power generation at WTE plants, and the operations are therefore highly dependent on the Target Household Waste Companies' ability to successfully secure sufficient amounts of household waste supplies and the household waste providers' ability to fulfill their obligations under the relevant supply contracts. While the Target Household Waste Treatment Projects have the benefit of certain undertakings from governmental authorities in respect of supply of household waste under the relevant concession agreements, the Target Household Waste Companies may encounter difficulties in enforcing such undertakings against the governmental authorities. Uncertainties include failure to renew waste treatment contracts upon expiry, shortage of household waste provided by household waste providers or early termination as a result of any breach or liquidation of the household waste providers. If the Target Household Waste Companies fail to renew their existing contracts or secure replacement contracts for the sufficient supply of household waste on commercially acceptable terms, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Target Household Waste Companies rely on the household waste providers' compliance with their obligations to ensure that no prohibited waste such as explosive waste, medical waste, industrial waste and construction waste are included in the household waste delivered to them. Any failure on the part of the household waste providers to duly perform their contractual obligations would affect the efficiency and performance of the WTE plants of the Target Household Waste Companies.

Improvements in recycling of waste materials may have a material adverse effect on waste-to-energy projects.

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

Advances in other methods of innocuous treatment of waste or other incineration technologies may have a material adverse effect on the business of waste-to-energy projects.

There are on-going research and development activities to look for alternative and more efficient technologies for the treatment of waste. Technological advances in other methods of innocuous treatment of household waste, such as sanitary landfilling and composting and other incineration technologies such as plasma gasification may reduce the cost of waste management and/or provide new or alternative methods of waste management that may be more attractive than the treatment method employed by the Target Household Waste Projects. Any of these changes could have a material adverse effect on the Target Group's revenues, business and the value of its existing facilities.

The Target Group depends on the PRC government's policies and regulatory framework supporting solid waste treatment and energy generation.

The Board is aware that the development and profitability of solid waste treatment and WTE power projects in the PRC is significantly dependent on policies and regulatory frameworks that support such development. From time to time, changes in the laws and regulations or the implementation thereof may require the Enlarged Group to obtain additional approvals from the PRC authorities or fulfill additional requirements for the conduct of its operations in the PRC. In such event, the Enlarged Group may incur additional expenses in order to comply with such requirements. There is no assurance that the PRC government will continue to implement, and that it will not adjust or even abolish its favourable policies related to the promotion of solid waste treatment and WTE power projects. In the future, favourable PRC regulatory policies for WTE technology may apply differently where more advanced or different WTE technology are adopted by the relevant project. If any of the foregoing were to ocurr, it would in turn affect the financial performance of the Enlarged Group as its business costs will increase, and hence the Enlarged Group's overall business and financial performance, and financial condition, would be adversely affected.

Disposal of solid waste, hazardous waste and medical waste and operation of waste power generation project have risks. If any accident occurs, it may cause personal injury to the employees and have a serious impact on the business, financial condition and operating results of the relevant Target Project.

Disposal of solid waste and operation and waste power generation have certain safety risks arising from production. The Hazardous Waste and Medical Waste Project generally treats hazardous waste that is toxic, harmful and corrosive, as well as medical waste that may be infectious. Therefore, there exist certain risks relating to production safety in the process of collection, loading and unloading, transportation, storage, disposal and resource utilisation of hazardous waste and medical waste. During the Track Record Period, the Target Group did not encounter any serious production safety accidents. However, there is no assurance that no safety accidents will occur due to contingent factors. Any occurrence of accidents involving personal safety and pollution in the aforesaid procedures will adversely impact the production and operation of the Target Group.

Volatility in demand for hazardous waste and medical waste treatment service could have a material and adverse impact on the business of the Hazardous Waste and Medical Waste Project.

Unlike the Household Waste Treatment Projects, there is no certainty as to the supply of hazardous waste and/or medical waste, as the relevant governmental authority did not guarantee a minimum supply of waste pursuant to the concession agreement in respect of the Hazardous Waste and Medical Waste Treatment Projects. Demand for hazardous waste and medical waste treatment service is much more uncertain compared with household waste treatment service. If existing customers or potential customers of the Hazardous Waste and Medical Waste Treatment Project, being producers of hazardous waste or medical waste in their operations, store the wastes for a certain period of time before disposal and/or stop producing hazardous waste or medical waste in the future, they may no longer procure the services or procure the services as expected from the Hazardous Waste and Medical Waste Treatment Project and it may adversely impact the business, financial condition and results of operations of the Hazardous Waste and Medical Waste Treatment Project.

Customers or potential customers may also obtain hazardous waste and/or medical waste treatment qualifications on their own for treatment of waste produced. As at the Latest Practicable Date, based on publicly available information on the websites of certain government authorities in Hunan, some of Hunan Hengxing's existing customers are in the process of establishing their own hazardous waste and/or medical waste treatment centre. Upon commencement of operations of their own treatment centres, these customers may no longer procure services from the Group and even become competitors of the Hazardous Waste and Medical Waste Treatment Project, and it may have an adverse impact on the business, financial condition and results of operations of the Hazardous Waste and Medical Waste Treatment Project.

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

Due to the increasing demand for environmentally-friendly waste treatment in the PRC, new competitors could emerge in the market. As new competitors enter the market, the Target Group may be unable to compete with them when bidding for new projects, or the Target Group may be forced to adjust their bids to remain competitive in the bidding process, thus the Target Group's gross profit margin may be lowered. In addition, international competitors may enter the market and may be able to offer more advanced technologies. There is no assurance that the Target Group will continue to be successful in maintaining the Target Group's position against current and future competitors. Any impairment in the Target Group's ability to compete effectively could have a material adverse effect on the Target Group's business, financial condition and results of operations.

Negative public perceptions of the Target Projects may adversely affect the business of the Company.

Negative public perceptions, stemming from concerns about the environmental impact of waste-to-energy/hazardous waste and medical waste treatment projects have adversely impacted the development of the waste-to-energy industry in the PRC. Therefore, the government's policy for the waste-to-energy industry may be adversely affected. Any opposition or complaint by local residents against the operation of waste treatment facilities located near their residence may draw public attention and investigation and further policy change by relevant authorities. It may have a material adverse impact on the Target Group's business, financial condition and results of operations.

Any disruptions in facilities could result in losses and materially and adversely affect the business, financial condition and results of operations of the Target Group.

The Target Group relies on the solid waste treatment and waste-incineration power generation plants for waste treatment and generation of electricity. The facilities of these plants are subject to many operational and technical risks, including the breakdown or failure of equipment, information systems and processes; the performance of equipment below capacity (whether due to misuse, unexpected degradation, design flaws or construction or manufacturing defects); short supply of spare parts; operator errors and labour disputes. In addition, a natural disaster or other similar events could result in personal injury, property damage and environmental damage, which could curtail the Target Group's operations and materially adversely affect its cash flows and, accordingly, adversely affect the Target Group's ability to service its debt. Any significant damage from natural or other causes could be costly and time-consuming to repair, and could disrupt the operating activities of the business. In such an event, the Target Group would be forced to suspend operations until repairs are complete. This may result in additional costs, and there is no assurance that the Target Group would be able to complete repairs in a timely manner. The occurrence or continuance of any such events could increase costs associated with the Target Group's operations and reduce its profitability. Despite having disaster recovery plans in place, such plans may not be sufficient to cover all of the potential losses resulting from such damage and disruptions to the Target Group on acceptable terms, or at all.

Some Target Companies had not complied with certain laws, regulations and rules during the Track Record Period and may face fines or other penalties. In the future, the Target Group may fail to comply with laws and regulations applicable to current or future domestic and overseas markets in respect with environment, safety and health, thus causing serious damage to its reputation and generating compliance costs.

The operations of the Target Group are subject to extensive environmental, safety and health laws and regulations promulgated by the PRC government. The Target Group is required to obtain or renew certain permits, licenses and approvals (including but not limited to the licence for treatment of household waste, the Electric Power Business Permit, the Pollutant Discharge License, and the Water Withdrawal License) from various governmental authorities and to comply with relevant PRC laws and regulations in order to conduct their business. For further details, please refer to the section headed "2. Regulatory Overview" of this appendix. Any failure on the Target Group's part to comply with any laws and regulations applicable to its business operations may result in administrative sanctions, penalties, or even revocation of permits or licenses that are required for its operation.

In addition, if the projects that the Target Group operates do not comply with the environmental standards provided by PRC laws and regulations, the Target Group may be required to rectify the relevant project facilities, and in turn, additional costs in connection with compliance may be incurred. Such violation of existing or future environmental laws and regulations or standards may have a material adverse impact on the business, financial condition and results of operations of the Target Group.

During the Track Record Period, the Target Group failed to comply with certain laws, regulations and rules. Certain of the Target Companies have not completed the filing for or applied for environmental protection completion acceptance within the prescribed time limit, and therefore they are not entitled to apply for subsequent general construction completion acceptance or licenses (including the Electric Power Business Permit and the Pollutant Discharge License) without the environmental protection completion acceptance. The aforesaid Target Companies are currently preparing for environmental protection completion acceptance or will prepare for environmental protection completion acceptance after completion of rectification works, and attend to relevant general construction completion acceptance together with licenses thereafter. The Company is unable to ensure the time required to complete environmental protection completion acceptance, to obtain relevant general construction completion acceptance or to obtain the relevant licenses. For details please refer to "2. Regulatory Overview – Past Non-compliance Incidents" of this appendix.

Pollutant Discharge License: Hunan Hengxing and Beikong Wenchang are not entitled to obtain the Pollutant Discharge License due to failure to complete environmental protection completion acceptance. Pursuant to laws and regulations of the PRC, penalty for such non-compliance is an order to rectify within a time limit, to restrict production or to suspend production for rectification, and be subject to a fine of not more than RMB1 million. Where the non-compliance is severe, it will be ordered to suspend business and close down with the approval of the competent government. Based on the Company's interview with the Environmental Protection Bureau of Hengnan County and the Wenchang Bureau of Ecological and Environmental Protection and as advised by the PRC Legal Adviser, the aforesaid members of the Target Group have lower risk of being penalised by the government due to the failure to obtain the Pollutant Discharge License. The Company is unable to guarantee that Hunan Hengxing and Beikong Wenchang will be able to obtain the Pollutant Discharge License, or that the aforesaid members of the Target Group will not be penalised by the government prior to obtaining the Pollutant Discharge License.

Water Withdrawal License: Pursuant to laws and regulations, entities withdrawing water resources directly from rivers, lakes or underground with the use of water withdrawal engineering structures or facilities shall obtain the Water Withdrawal License. Hunan Hengxing is withdrawing underground water by drilling wells, and it is currently preparing the materials for to apply for the Water Withdrawal License. Beikong Shuyang is using water withdrawing engineering structures to draw water from Huaishu River, and it has submitted application materials for handling the Water Withdrawal License in March 2016. Based on the Company's discussion with the government and as advised by the PRC Legal Adviser, Hunan Hengxing and Beikong Shuyang have low risk of being penalized by the government. The Company is unable to guarantee that Hunan Hengxing and Beikong Shuyang will be able to obtain the Water Withdrawal License, or that the aforesaid companies will not be penalised by the government prior to obtaining the Water Withdrawal License.

Filing for general construction completion acceptance: Pursuant to PRC laws and regulations, the constructor shall submit the construction project completion acceptance report and recognition or permission documents issued by planning, police, fire and environmental protection authorities to the competent construction administration authority or other relevant authorities within 15 days from the passing of the completion acceptance. If a completed project fails to attend to general completion completion acceptance, it will be ordered to rectify and be subject to a fine of no more than RMB500,000. The BOO project expansion for Zhangjiagang Household Waste Incineration Power Plant operated by Zhangjiagang WTE, the modification and expansion project for the household waste incineration power plant operated by Ha'erbin Shuangqi, the Shuyang County Waste Incineration Power Plant operated by Beikong Shuyang and the Wenchang Household Waste Incineration Power Plant operated by Beikong Wenchang have not obtained the filing certificate for completion acceptance. Since the aforesaid construction projects are still in the stage of preparing for completion acceptance, the Company is unable to guarantee the time of completion of the filing procedures of general completion acceptance or assure that no administrative sanctions will be imposed before completion of general completion acceptance.

BEHL has given an indemnity in favour of the Company (for itself and as trustee for each member of the Target Group) pursuant to which it shall indemnify the Group for, among other things, all loss, liability, damage, cost, claim and expense arising from the aforesaid penalties. Please refer to "5. Relationship With BEHL – Indemnity from BEHL" of this appendix for further details. However, there is no assurance that the indemnity given by BEHL will be sufficient to protect the Enlarged Group from all potential losses or risks associated.

There is no assurance that the PRC authorities will not impose additional or more stringent environmental requirements that would require the Target Group to incur significant expense or expend a considerable amount of management and other resources, which it may not be able to pass on to its customers. The Target Group cannot predict how such laws and regulations, or the regulatory environment or standards, will change, or how such changes will affect its compliance costs and operations. There is no assurance that the Target Group will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary and outstanding certificates, licenses or permits for its operations in a timely manner, or at all, in the future. Any failure to comply with existing or future applicable laws and regulations (including but not limited to environmental laws and regulations) may result in fines, suspension of worksites or other penalties, which may cause irrevocable damage to the reputation of the Target Group and in turn have a material and adverse effect on its business, financial condition and results of operations.

The Target Group relies on operative rights granted under concession agreements to undertake business operations and any revocation or cancellation of these operative rights or termination of these concession agreements could have a material and adverse impact on its business.

The Target Group needs the licenses issued by the relevant government authorities to conduct its business. The Target Group must comply with certain restrictions and conditions imposed in the concession agreements to maintain its operative rights. If it fails to comply with any of the conditions, its licenses or operative rights could be cancelled or revoked, or the concession agreement may be terminated which could directly and adversely impact the business operations of the Target Group.

The Target Group conducts a portion of its business through joint ventures or similar cooperative arrangements. This may expose it to related risks and uncertainties, many of which the Target Group does not have full control over.

The Target Group has conducted and will continue to conduct a portion of its business through joint ventures arrangements, where control may generally be shared with independent third parties. Differences in opinion or views between partners can result in delayed decision-making and failure to agree on material issues, which could adversely affect the business and operations of such cooperative ventures.

The success of these joint ventures also depends largely on the satisfactory performance by its partners of their contractual obligations, including their obligation to perform work, commit working capital or credit support or fulfil indemnification and other contractual obligations. If the partners of the Target Group fail to satisfactorily perform their contractual obligations, the joint venture may be unable to perform its contractual services satisfactorily. Under these circumstances, the Target Group may be required to undertake additional obligations to ensure quality services are being provided to the clients. These additional obligations could result in reduced profits or, in some cases, increased liabilities or even significant losses to the Target Group.

In addition, a failure by a joint venture partner to comply with applicable laws or regulations could negatively impact the Target Group's business, by exposing it to the risk of, among others, fines, penalties, suspension of operations, litigation or other legal proceedings.

During the Track Record Period, Ha'erbin Shuangqi had failed to pay social insurance premium and housing fund contributions in strict compliance with applicable laws and regulations, that may be subject to potential payment of the shortfall or fines.

During the Track Record Period, Ha'erbin Shuangqi failed to strictly comply with PRC laws and regulations to contribute towards social insurance premium and housing fund contributions on behalf of its employees, which were based on the basic salary of its employees instead of its employees' average monthly salary for the preceding year, as required by the applicable laws and regulations.

As the city of Ha'erbin does not have overall rules and regulation unifying the method of calculation for the basis of social insurance premium and housing fund contributions, the management of Ha'erbin Shuangqi lacked clear understanding on the precise calculation for such base numbers, resulting in an inconsistency in its social insurance premium and housing fund contributions for its employees.

To prevent recurrence of this non-compliance incident, Ha'erbin Shuangqi has adopted various remedial measures, including (i) the human resources supervisor of Ha'erbin Shuangqi will submit on a monthly basis for the general department manager's review, the calculation sheets setting out all the social insurance premium and housing fund contributions that shall be made for its employees. Thereafter, the abovementioned calculation sheets will be submitted to the finance department of the Company for accruals to be made; (ii) the management of Ha'erbin Shuangqi will periodically consult the relevant authorities as to whether the current social insurance premium and housing fund contributions made is in compliance with applicable laws and regulations; (iii) the management of Ha'erbin Shuangqi will periodically consult external legal advisers as to any non-compliance risk; and (iv) the general department of Ha'erbin Shuangqi will provide training in relation to calculation of social insurance premium and housing fund contributions to the relevant personnel.

Pursuant to PRC laws and regulations, if an employer fails to make social insurance premium on time and in full, the social insurance collecting agency may order the employer to make up the shortfall within a prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times of the unpaid amount owed to the relevant administrative agency. Where an employer fails to timely contribute or fully contribute to the housing fund contributions, the Housing Fund Management Center may order such employer to contribute within a time limit and where the employer fails to contribute within such time limit, the Housing Fund Management Center may request enforcement from the court.

For period from 1 January 2013 to 31 December 2015, the amount of unpaid social insurance premium was RMB442,000 and the amount of unpaid housing fund contributions is RMB191,000. The amount of potential late fine for the unpaid social insurance premium for the same period is estimated to be RMB145,000.

As at the Latest Practicable Date, Ha'erbin Shuangqi has not received any notice from the relevant governmental authority ordering Ha'erbin Shuangqi to pay the due amount or to adopt any remedial actions, nor has it been subject to any administrative sanction from the relevant authority. As advised by the PRC Legal Advisers, Ha'erbin Shuangqi may be ordered to make up the shortfall of social insurance premium and housing fund contributions and there is a possibility that Ha'erbin Shuangqi will be ordered to pay a late fee and be fined by the social insurance collecting agency. Based on the above legal advice and the Company's view that the amount of the unpaid social insurance premium and housing fund contributions is not significant, the Company considers that potential payment of the shortfall and fine would not have a material operational or financial impact on the Enlarged Group.

BEHL, the controlling Shareholder of the Company, has undertaken to indemnify the Company for any loss or penalty that may arise from the such non-compliance by the Target Group. For further details, please refer to the section headed "5. Relationship With BEHL – Indemnity from BEHL" of this appendix. However, there is no assurance that the indemnity given by BEHL will be sufficient to protect the Enlarged Group from all potential losses or risks associated.

The Target Group does not have title certificates with respect to some of its owned properties.

The Target Group had not obtained title certificates with respect to some of the properties that it owns. Pursuant to relevant PRC laws and regulations, documents evidencing construction completion acceptance are required to be submitted in order to process initial housing registration and obtain the title certificates in respect of such property. Since the construction works in respect of the Ha'erbin Shuangqi Project in respect of expansion works, the Zhangjiagang WTE Project and the Beikong Shuyang Projects have not yet completed construction completion acceptance, these projects are unable to obtain title certificates with respect to their own properties. Ha'erbin Shuangqi, Zhangjiagang WTE and Beikong Shuyang will promptly attend to obtain the relevant title certificates upon completion of construction completion acceptance. In addition, Ha'erbin Shuangqi is preparing to apply for title certificates in connection with the properties that have completed construction completion acceptance. The Target Group is unable to predict when Ha'erbin Shuangqi, Zhangjiagang WTE and Beikong Shuyang will obtain the relevant title certificates.

Each of Zhangjiagang WTE, Ha'erbin Shuangqi and Beikong Shuyang holds valid land use rights certificate and is accordingly entitled to the occupation, use and disposal (including property construction) of the land where the properties are located. According to PRC laws and regulations, unless there is evidence to the contrary, the ownership to buildings, structures and auxiliary facilities constructed by the holder of land use right certificate shall belong to the holder of such land use right certificate. The main reason for the failure by Zhangjiagang WTE, Ha'erbin Shuangqi and Beikong Shuyang to obtain the title certificates for their respective properties is because the construction works in respect of the relevant Target Projects have not completed construction completion acceptance. The Company believes that there is no material legal impediment for the Target Group to obtain the outstanding title certificates after completion of the construction completion acceptance by the relevant Target Projects.

There is also no assurance that the Target Group's ownership rights would not be adversely affected in respect of properties for which the Target Group is unable to obtain title certificates. Any of these may have a material adverse effect on the Target Group's business, financial condition, results of operation and prospects.

Pursuant to relevant applicable PRC laws and regulations, the Target Group may be restricted from transferring, mortgaging or otherwise disposing of such properties before the Target Group obtains the title certificates. Save for the above, the Company believes that there will be no material adverse effect on the Target Group's operation. As at the Latest Practicable Date, the Target Group had not experienced any material adverse effect on the business operations due to not having obtained title certificates for its properties, nor has the Target Group been requested by relevant government authorities to cease using its properties.

As advised by the PRC Legal Adviser, (i) there was no material legal impediment for Zhangjiagang WTE, Ha'erbin Shuangqi and Beikong Shuyang to obtain the outstanding title certificates if the Target Group apply for the registration of the ownership of the Property according to the applicable law after obtaining the construction completion acceptance; (ii) as the Target Group fails to obtain the title certificate, the Target Group may be restricted from transferring, mortgaging or otherwise disposing of such properties; and (iii) whereas (A) pursuant to PRC laws and regulations, a holder of land use right certificate is entitled to possess, use and benefit from the land, and is entitled to use the land to construct buildings, structures and auxiliary facilities. As the Target Group owns the land use rights certificate of the relevant Target

Projects, they are entitled to construct the Target Projects. Once they complete the construction completion acceptance, the Target Group may obtain the title certificates; and (B) pursuant to certain concession agreements of certain Target Projects, the competent department of relevant government authorities has authorised certain Target Companies to invest, construct and operate the relevant Target Projects during the period of the concession. Failure to obtain the title certificate will not affect such Target Company's operation of the respective Target Projects.

Target Projects have limited means to raise funds for their operation needs.

Certain land of the Target Group were obtained through administrative reservation allocation, the transfer, letting and charge of which is subject to certain restrictions under applicable PRC laws and regulations. In addition, assets of Target Companies are subject to restrictions under the relevant BOT agreement, where Target Companies can only charge their concession operation projects for the projects' financing needs, but are prohibited from transferring such assets or using such assets for any other purpose. Therefore, there are limitations to use assets of the Target Companies as collateral to obtain external financing. In addition, other than Zhangjiagang WTE Project, all of the Target Projects are BOT projects, the land and properties of which should be returned to government upon expiry of concession agreements. If there is any shortage of operating cash flow of the Target Projects, the Target Companies have limited means to raise funds for its operation needs.

The Target Group has limited insurance coverage, which may be inadequate to cover all the risks associated with its business operations.

During the course of its operations, the Target Group may face various claims and disputes against liabilities that are not insured adequately, or at all, or liabilities that cannot be insured. As advised by the PRC Legal Adviser, the Target Projects are not obliged to take out insurance on projects under PRC laws. Pursuant to certain concession agreements of certain Target Projects, the project companies shall effect relevant insurances, failing which the competent authority under the concession agreement is entitled to effect such insurance on its own at the cost of the project companies. The project companies may fail to effect various insurances as required by the concession agreements. However, such failure will not render the project company's concession right to be terminated. As at the Latest Practicable Date, the competent authority has not raised any objection regarding the project company's failure to effect the insurances in accordance with the concession agreements. Based on the PRC Legal Adviser's understanding, failure to effect all insurance in accordance with the concession agreement will not affect the concession right.

The Target Group is unable to predict the availability of insurance at acceptable premium levels, or at all. As such, the Target Group may not be able to maintain insurance policies at economically acceptable premiums. The Target Group may not be able to obtain certain types of insurance (such as insurance covering losses from acts of war and natural catastrophe) at a reasonable cost, or at all. There is no assurance that insurance policies maintained by the Target

Group are sufficient to cover all risks associated with its business and operations. Losses incurred due to liabilities not sufficiently covered by the Target Group's insurance policies may have a material and adverse effect on the Target Group's business, financial condition and results of operations.

The Target Group depends on highly skilled employees with particular expertise and experienced senior management.

Given the unique nature of the WTE business, the Target Group requires highly skilled employees with particular expertise and experienced senior management for the operation of the waste incineration power generation plant. The operation of the plant could be undermined by the failure to recruit or retain key personnel, or the unexpected loss of key senior employees. The Enlarged Group will continue to offer competitive remuneration packages and provide suitable training opportunities in order to retain and recruit qualified staff. In addition, the Company understands that the key management of BEHL who are experienced in the environmental protection industry, will provide guidance to the Enlarged Group, provide support in the strategic planning and daily operations of the Target Group as well as facilitate deployment of human resources from BEHL to ensure the smooth operation of the Target Projects.

The Target Group's actual results could differ from the assumptions and estimates used to prepare its financial statements.

In preparing the financial statements, the Target Group is required to make estimates and assumptions in respect of relevant circumstances as of the date of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Areas requiring significant estimates by its management include but are not limited to:

- recognition of contract revenue, costs, profits or losses in applying the principles of percentage of completion accounting;
- recognition of recoveries under contract change orders or claims;
- estimated amounts for expected project losses, warranty costs, contract close-out or other costs;
- collectability of accounts receivable and the need and amount of any allowance for doubtful accounts;
- asset valuations;
- income tax provisions and related valuation allowances;

- determination of expense and potential liabilities under pension and other post-retirement;
- benefit programs; and
- accruals for other estimated liabilities.

The actual business and financial results of the Target Group could differ from its assumptions and estimates, which could have a material negative impact on its financial condition and reported results of operations.

RISKS RELATING TO THE PRC

Economic, political and social conditions in the PRC, as well as government policies, could affect the business, financial condition, results of operations and prospects of the Target Group.

The majority of the assets and business of the Target Group are located in the PRC and its business, results of operations and financial conditions are subject to economic, political and legal developments in the PRC. China's economy differs from the economies of developed countries in many respects, including the degree of government involvement, level of development, growth rate, and control over foreign exchange and allocation of resources. For the past two decades, the PRC government has implemented economic reform measures emphasising the utilisation of market forces in the development of the PRC economy. While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. In addition, even if these measures benefit the overall PRC economy, they may adversely affect business, results of operations, financial conditions and prospects of the Target Group.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond the control of the Target Group may have a material adverse effect on its business operations, financial condition and results of operations

Natural disasters, epidemics, acts of war or terrorism or other factors beyond the control of the Company may adversely affect the economy, infrastructure and livelihood of the people in the regions where the Target Group conduct its business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome ("**SARS**"), avian influenza, H5N1 influenza, H1N1 influenza or H7N9 influenza, potential wars or terrorist attacks. Serious natural disasters may result in a loss of lives and injury and destruction of assets and disrupt the Target Group's business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially and adversely affect economic systems and financial markets. Acts of war or terrorism may also injure the Target Group's employees, cause loss of lives, disrupt the its business network and destroy its markets. Any of these factors and other factors beyond the control of the Target Group could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where the Target Group conducts business, cause its business to suffer in ways that it cannot predict and materially and adversely impact its business, financial condition and results of operations.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may apply to the acquisition of GSWM.

On 3 February 2015, the PRC State Administration of Taxation issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告)("**Circular 7**"). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》)("**Circular 698**") and certain rules clarifying Circular 698. Circular 698 was issued by the PRC State Administration of Taxation on 10 December 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise ("**PRC Taxable Assets**"). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 exempts this tax, for examples, (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. The sale and purchase of the entire issued share capital of GSWM, being a portion of the Acquisition, may involve an indirect transfer by a non-resident enterprise of equity interests of two PRC resident enterprises, i.e. Gaoantun WTE and Zhangjiagang WTE. As Circular 7 was newly implemented and only became effective in February 2015, there is limited guidance and practical experience regarding the application and enforcement of Circular 7 and it remains uncertain whether Circular 7 will be applicable to the acquisition of GSWM.

RISKS RELATING TO THIS CIRCULAR

Certain statistics, industry data and other information relating to general economy and industry environment contained in this circular are derived from various publications by official governmental authorities, industry associations and other entities, and the Company cannot assure the accuracy and completeness of such statistics, data and information Certain statistics, industry data and other information relating to the general economy and industry environment contained in this circular were derived from various publications by official governmental authorities, industry associations and other entities. The statistics, data and information contained in these publications is provided through channels such as governmental authorities and industry associations. As such, the Company or its Directors, agents and advisers cannot assure or make any representation as to the accuracy or completeness of such statistics, data and information.

None of the Company, its legal advisers or any of their respective associates, directors, employees, agents or advisers has prepared or independently verified the accuracy or completeness of such statistics, data and information directly or indirectly derived from sources and channels such as official governmental authorities and industry associations. Due to the possibility of flawed collection methods, discrepancies in published information, different market practices or other problems, the statistics, industry data and other information relating to the general economy and industry environment derived from sources from channels such as official governmental authorities and industry associations may be inaccurate or may not be comparable to statistics produced from other sources, and thus should not be unduly relied upon. Shareholders should give careful consideration as to how much weight or importance to attach or place on such statistics, industry data and other information relating to the general economy and the industries.

This circular contains forward-looking statements relating to the Company's plans, objectives, expectations and intentions, which may not represent its actual performance for the periods of time to which such statements relate.

This circular contains certain forward-looking statements relating to the Company's plans, objectives, expectations and intentions. Such forward-looking statements involve known and possibly known risks, uncertainties and other factors which may cause actual performance or achievements of the Company to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this circular. Such forward-looking statements are based on numerous assumptions as to the Company present and future business strategies and the environment in which the Company will operate in the future. The actual performance or achievements of the Company may differ materially from those disclosed in this circular.

2. REGULATORY OVERVIEW

Regulations on the Target Group's Business in the PRC

The Target Group's business is subject to regulation by the relevant governmental authorities and relevant laws and regulations in the PRC as further elaborated below:

Industry Policy

Policy on Foreign Investment

According to the Catalog for Guiding Foreign Investment in Industries (2015)(《外商投資產業指導目錄》(2015)), promulgated by National Development and Reform Committee ("**NDRC**") and the Ministry of Commerce, and its amendments issued in 2002, 2004, 2007 and 2011 respectively, WTE (Waste-to-Energy) plants, HWT (Hazardous Waste Treatment) plants and the construction and operation of the facilities for environmental pollution control fall within the category of industries in which foreign investment is encouraged. Foreign investors may invest in the PRC by means of establishing Sino-foreign Equity Joint Venture Enterprises (EJV) or Sino-foreign Contractual Joint Venture Enterprises (CJV) or Wholly Foreign Owned Enterprises (WFOE).

Investment System of Fixed Assets

Approval System of Investment Projects

According to the Decision on Institutional Reform of Investment System (Guo Fa [2004] No. 20)(《國務院關於投資體制改革的決定》(國發[2004]20號)) and Catalog of Investment Projects Approved by the Government (2004)(《政府核准的投資項目目錄(2004年本)》) attached therein which is abolished and replaced by Catalog of Investment Projects Approved by the Government(2014)(《政府核准的投資項目目錄》(2014年本)), WTE projects and HWT projects are generally examined and approved or filed by competent investment departments of local governments on self-determination.

System of Capital Fund

According to the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (Guo Fa [1996] No. 35) (《國務院關於固定資產投資項目試行資本金制度的通知》(國發[1996]35號)) promulgated and implemented by the State Council on 23 August 1996, the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (Guo Fa [2009] No. 27) (《國務院關於調整固定資產投資項目資本金比例的通知》(國發[2009]27號)) promulgated and implemented by the State Council on 25 May 2009 and the Notice of the State Council on Adjusting and Improving the Capital System in Fixed Asset Investment Projects (Guo Fa [2015] No. 51) (《國務院關於調整和完善固定資產投資項目資本金制度的通知》(國發[2015]51號)) promulgated and implemented by the State Council on 9 September 2015, a system of capital fund is adopted for fixed asset investment projects. In addition to the debt funds raised from banks and fund market by a project legal entity, there must be a certain proportion of capital maintained in the total investment. Capital fund in investment projects refers to capital contributions subscribed by investors in the total investment which a project legal entity shall not bear any interest and debt of these funds. Investors may enjoy owner's interest according to their investment proportion as well as transfer their investment, but not withdraw the capital fund in any way. The proportion of capital invested in waste treatment projects and hazardous waste treatment projects shall be no less than 20% of the total investment.

Pricing Policy of the WTE Plants

According to the Measures for the Administration on the Concession of Municipal Public Utilities (Decree No. 126 of the Ministry of Construction)(《市政公用事業特許經營管理辦法》(建設部令第126號)) promulgated by the former Ministry of Construction (now known as Ministry of Housing and Urban-Rural Development, as referred and hereinafter) on 19 March 2004 and implemented on 1 May 2004, and the Opinion on Accelerating the Marketization of Municipal Public Utilities Industries (Jian Cheng [2002] No. 272)(《關於加快市政公用行業市場化進程的意見》(建城)[2002]272號) promulgated and implemented by the former Ministry of Construction on 27 December 2002, the prices of products or services of municipal public utilities are approved and regulated by relevant departments of the People's Government of municipalities, prefecture-level cities and counties, and the respective standards of price (charge) of municipal public products or services are determined in compliance with the rules of market economy and in accordance with the average cost and reasonable profit to enterprises in the relevant industry, subject to the full consideration of a reasonable allocation of resources and the protection of public interest. Where the price of a product or service provided by an enterprise is lower than the cost for the purpose of satisfying needs from the general public, or where an enterprise undertakes a duty assigned by the government for the purpose of achieving a public welfare objective set by the government, the government shall subsidize the enterprise accordingly.

According to the Renewable Energy Law of the People's Republic of China (2009) (《中華人民共和國可再生能源法(2009修訂)》), the government encourages and supports various types of grid-connected renewable power generation including WTE and practices the full protective purchasing price system for renewable power generation. Grid enterprises shall enter into grid connection agreement with renewable power generation enterprises that have been built in accordance with renewable energy development and utilisation plan and have legally obtained administrative license or for which filing has been made and buy the grid-connected power produced with renewable energy that conforms to the technical standard of grid connection within the coverage of their power grid. According to the Measures for the Regulation of Full Acquisition of Renewable Energy Power by Grid Enterprises (《電網企業全額收購可再生能源電量監管辦法》) implemented on 1 September 2007, grid enterprises should strictly follow the State approved renewable energy tariff, subsidy standards and power purchase contracts, timely and fully settle tariffs and subsidies. Renewable energy generators' tariff and tariff settlement shall be charged and conducted in accordance with relevant provisions of the State.

According to the NDRC's Notice in relation to the Optimization of Waste-to-Energy Power Tariff Policy (NDRC Prices [2012] No. 801)(《國家發展改革委關於完善垃圾焚燒發電價格政策的通知》(發改價格[2012]801號)) promulgated by the NDRC on 28 March 2012 and implemented on 1 April 2012, for WTE projects approved after 1 January 2006, among which, with respect to WTE projects using household waste as its raw material, the on-grid electricity is first calculated based on the amount of the waste treatment. Each ton of household waste is temporarily set as to generate 280kWh of on-grid electricity and is priced at nationally unified standard of WTE electricity of RMB 0.65/kWh (tax inclusive, applicable hereinafter); the remaining on-grid electricity is priced on the basis of on-grid tariff for local coal-fueled generators. If the on-grid electricity generated by waste treatment is less than 50% of the actual on-grid electricity, the relevant project will be taken as a conventional power generation project which is not entitled to WTE subsidies; whereas the converted on-grid electricity is higher than 50% of but below the actual on-grid electricity, the converted on-grid electricity will be treated as WTE on-grid electricity; when the converted on-grid electricity is higher than the actual on-grid electricity, actual on-grid electricity will be considered as WTE on-grid electricity.

Charge Policy of the HWT Plants

According to the Notice of the NDRC, the State Environmental Protection Administration, the Ministry of Health, the Ministry of Finance and the Ministry of Construction on Implementing of Hazardous Waste Treatment Fee System and Promoting Industrialisation of Hazardous Waste Treatment (NDRC Price [2003] No. 1874)(《國家發展改革委、國家環保總局、衛生部、財政部、原建設部關於實行危險廢物處置收費制度促進危險廢物處置產業化的通知》(發改價格[2003]1874號)) promulgated and implemented by the NDRC, the former State Environmental Protection Administration, the former Ministry of Health, the Ministry of Finance and the former Ministry of Construction on 18 November 2003, the State applies hazardous waste disposal fee system, encouraging household and foreign capital, including private enterprises to invest in hazardous waste disposal facility construction and operation. Charges for treatment of hazardous waste (not including the delivery and storage fee of radioactive waste) is operational service charge, whose charging standard should be determined in accordance with the principle of compensation for hazardous waste disposal costs and a reasonable profit. Specific principles and approaches to hazardous waste disposal Charge shall be formulated by the provinces, autonomous regions and municipalities price departments, and the specific standards shall be formulated by the municipal People's Government price departments in consultation with the relevant authorities at the municipal level, reported to the city government for approval and submitted to the provincial pricing department for filling.

Industrial hazardous waste and other hazardous waste coming from the society are charged according to the weight of hazardous waste in principle. Hazardous waste treatment enterprises sign service agreements of centralized treatment with enterprises producing hazardous waste within the charging standards prescribed by price departments. Hazardous waste disposal fees are charged by the hazardous waste treatment enterprises to enterprises producing hazardous waste and used to pay for collection, transportation, storage, disposal costs of hazardous waste. Hazardous waste treatment fee shall not be charged in any form before the hazardous waste treatment equipment has been put into use.

Concession System of Municipal Public Utilities

Concession System

According to the Measures for the Administration on the Concession of Municipal Public Utilities (Decree No. 126 of the Ministry of Construction)(《市政公用事業特許經營管理辦法》(建設部令第126號)) and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (Jiancheng [2005] No. 154)(《建設部關於加強市政公用事業監管的意見》(建城[2005]154號)) promulgated and implemented by the former Ministry of Construction on 10 September 2005, provisions in relation to concession rights for municipal public utilities are applicable to waste treatment industries since such industries are operated under concessions. Government authorities should select investors or operators for waste projects in accordance with all relevant laws, rules and regulations and through market competition mechanism, with whom concession agreements are entered into and to whom respective concession are granted, and make it clear that investors or operators operate municipal utility products or provide service within a certain period and scope.

According to the Administrative Measures for the Franchising of Infrastructure and Public Utilities promulgated by NDRC, Ministry of Finance, Ministry of Housing and Urban-Rural Development, Ministry of Transport, Ministry of Water Resources, People's Bank of China on 25 April 2015 and implemented on 1 June 2015, franchisee of infrastructure and public utilities refers to a legal person or other organization in and out of the territory of the People's Republic of China who is selected through competition with rights, obligations and risks specified in an agreement, and is authorised by the government to invest, build, and operate infrastructure and public utilities, to obtain benefits and to provide public products or services within a certain period and scope or territory as agreed.

Terms of the Concession Right

The term of each concession right, which the longest shall not exceed 30 years, is determined after taking into account all factors, including characteristics, scale and operation mode of the industry involved. Upon its expiration, competent authority shall, in accordance with the procedures stipulated, organize tender to re-select concessionaire. Administrative Measures for the Franchising of Infrastructure and Public Utilities further stipulates that for a franchised infrastructure or public utility project with large scale of investment and long period returning the investment, the government or its authorised department may agree with the franchisee according to the actual conditions, and approve the franchising term of more than 30 years.

Procedures and Conditions to Obtain Concession Rights

Administrative Measures for the Franchising of Infrastructure and Public Utilities provides that the authority of administrating the implementation of the franchised plan shall, in accordance with the implementation plan of an approved franchised project, select a franchisee through competitive manners, such as bidding process and competitive negotiations. Where the construction and operation standards and regulatory requirements for a franchised project are specified, and the market is competitive, the franchisee shall be selected through bidding process.

According to the Measures for the Administration on the Concession of Municipal Public Utilities, investors or operators participated in concession bidding shall be equipped with the following conditions:

i. being legally registered as enterprise;

ii. with appropriate facilities, equipment;

iii. with good bank credit, financial situation and the corresponding solvency;

iv. with appropriate business experience and good performance;

v. with a corresponding number of technical, financial, management and other key staffs;

vi. with practical business plan; and

vii. satisfying other conditions provided in local laws and regulation.

Primary Regulatory Activities

Competent authority of concessions for municipal public utilities establishes a qualifying monitoring system on products and services of municipal public utilities, through which the authority monitors quality of designated products and services provided by enterprises regularly, urges enterprises to establish and improve the security system. In the course of operation of the project, the competent authorities organize experts to conduct mid-term assessment of the business.

Restrictions on the Conducts of Enterprises to Which Concession Rights have been Granted

Where an enterprise to which a concession right has been granted intends to unilaterally terminate the concession agreement within the concession period, it shall apply to the competent authority in advance. Before the authority's approval for such termination is granted, the enterprise must maintain its normal operation and service. The concessionaire shall not shut up or close at will without approval from government of municipality, town and county level.

Treatment of Violations

Where an enterprise to which a concession right has been granted is involved in any one of the following conducts during the concession period, the competent authority shall terminate the relevant concession agreement and cancel the relevant concession right according to law and choose to temporarily takeover the enterprise if necessary:

i. Transfering or leasing the concession right without authorisation;

ii. Disposing of or mortgaging the assets operated by it without authorisation;

iii. Occurrence of any material quality or production safety accident due to poor management;

iv. Closing or suspending business without permission, which seriously affects public interest and safety;

v. Other conducts prohibited by law and regulations.

Where an enterprise to which a concession right has been granted by way of an improper manner such as fraud and bribery, the competent authorities should revoke its concession right and report to the Construction Department of State Council by which the information be disclosed to the public through the media and other forms. An enterprise that has been revoked the concession right shall not participate in municipal utilities concession bidding within the following three years.

Procedures for the Construction Projects

Environmental Impact Assessment Approval

According to the Environmental Impact Assessment Law of the People's Republic of China (Presidential Decree No. 77)(《中華人民共和國環境影響評價法》(主席令第七十七號)) promulgated by Standing Committee of the National People's Congress (the "**SCNPC**") on 28 October 2002 and implemented on 1 September 2003, the State shall implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects. In the event of possible significant environmental impact, an environmental impact report shall be prepared for comprehensive assessment of the environmental impact. In the event of slight environmental impact, an environmental impact statement shall be prepared for analysis or assessment of specific items relating to the environmental impact. In the event of minimal environmental impact which does not warrant an environmental impact assessment, an environmental impact registration form (along with environmental impact report and environmental impact statement collectively, referred as Environmental Impact Assessment Documents hereinafter) shall be completed. A construction entity shall submit the Environmental Impact Assessment Documents of a construction project to the relevant environmental protection department for approval in accordance with the regulations of the State Council.

Where a construction entity commenced construction prior to submission of the Environmental Impact Assessment Documents of the construction project, the environmental protection department in charge of examination and approval of such project shall order for suspension of the construction and the construction entity shall be required to complete the relevant formalities by a stipulated deadline. A construction entity which failed to complete the relevant formalities within the deadline shall be liable to a fine ranging from RMB50,000 to RMB200,000 and the person-in-charge and responsible personnel of the construction entity shall be liable to administrative sanctions in accordance with laws.

Project Approval/Filling

According to the Administrative Measures on Approval and Filing for Foreign Investment Projects (2014)(《外商投資項目核准和備案管理辦法(2014修訂)》) promulgated and implemented by NDRC on 27 December 2014, administration of foreign investment projects shall comprises approval and filing methods. The scope and powers of approval authority for foreign investment projects shall be implemented in accordance with the "Approval List" promulgated by the State Council. Foreign investment projects beyond the scope set out in "Approval List" shall be filed with the investment department of a local government.

Where a project is not approved by or filed pursuant to the stipulated competent authorities in accordance to the stipulated procedures, the relevant authorities shall not process the relevant formalities, and financial institutions shall not provide any credit support.

Construction Land Planning Permit

According to the Urban and Rural Planning law of the People's Republic of China (Presidential Decree No. 74)(《中華人民共和國城鄉規劃法》(主席令第74號)) (the "**Urban and Rural Planning Law**") and its 2015 revision promulgated by the Standing Committee of National People's Congree (the "**SCNPC**") on 28 October 2007 and implemented on 1 January 2008, construction entity of project which has been provided with a state-owned land use right by way of allocation of land in planning area of city or town, once the project has been authorised, approved, or recorded by relevant departments, shall apply to a competent urban and rural planning administrative department at the municipal or country level of the People's Government for permitting the land use for construction. The developing entity may apply for land use to the department in charge of land under the local people's government at or above the county level only after obtaining the permit for planned use of land for construction. The said department shall allocate the land to it upon approval by the people's government at or above the county level. Construction entity of project which has been granted with a state-owned land use right by way of assignment of land shall apply to a competent urban and rural planning administrative department at the municipal or country level of the People's Government for a Construction Land Use Planning Permit after entering into such state-owned land using right grant contract.

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

Construction Work Planning Permit

According to the Urban and Rural Planning Law, where construction is conducted in a city or town planning area, the relevant construction entity or individual shall apply to a competent urban and rural planning administrative department of the People's Government at the municipal or country level or to the People's Government of town as recognised by the People's Government of a province, autonomous region or municipality for a Construction Work Planning Permit.

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

Construction Work Commencement Permit

According to the Construction Law of the People's Republic of China (Presidential Decree No. 46)(《中華人民共和國建築法》(主席令第四十六號)) promulgated on 1 March 1998 whose amendment was formally issued by SCNPC on 22 April 2011, a construction entity shall, prior to the commencement of construction of a construction project, apply to a competent department of the construction administration of the People's Government at or above the country level of the place where the project is to be located for a Construction Work Commencement Permit pursuant to the relevant regulations of the State Council, excepting for construction projects of small scale which have already obtained approvals for their construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council. Persons carrying out construction without obtaining a construction permit or approval of work commencement report shall be ordered to make correction; projects which do not satisfy the criteria for commencement of work shall be ordered to stop construction and a fine may be imposed.

According to the Rules on the Administration of Construction Quality (Decree No. 279 of the State Council)(《建設工程質量管理條例》(國務院令第二百七十九號)) promulgated and implemented by the State Council on 30 January 2000, a construction entity illegally commencing the project without obtaining the construction work commencement permit or approvals for its construction commencement report shall be ordered to stop the construction work and to carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% of the construction price but not exceeding 2% of such price.

Inspection and Acceptance on Completion of Construction Projects

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) and Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the former Ministry of Construction on 4 April 2000 and revised on 19 October 2009, the construction entity shall organize design, construction, project supervision and other relevant entities to conduct final acceptance after receiving the report of completion of construction projects. A construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file a record including completion report of construction project, document of approval or use consent issued by planning, public security and fire safety, environmental protection and other departments to a competent construction administrative department at or above the country level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks.

Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checking in respect of the project within 15 days from the day when the construction project passes the acceptance checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.

Environmental Protection Completion Acceptance on Completion of Construction Projects

According to the Administrative Rules on Environmental Protection with Respect to Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented by State Council on 29 December 1998, after the construction project has been completed, the constructing unit should apply to the department responsible for environmental protection which originally examined and approved the Environmental Impact Assessment Documents relating to the said construction project, for examination and acceptance of the environmental protection facilities used in the construction project. Examination and acceptance of the environmental protection facilities upon project completion should be carried out at the same time as examination and acceptance of the main parts of the project. For construction projects where it is necessary to conduct trial operation, the constructing unit should apply within three (3) months of the date of the construction project entering into trial operation, to the department responsible for environmental protection which originally examined and approved the Environmental Impact Assessment Documents relating to the said construction project, for examination and acceptance of the environmental protection facilities used in the construction project. For construction projects where construction or production is in stages, the corresponding environmental protection facilities shall be examined and accepted in stages. After auxiliary environmental protection facilities have been found satisfactory on being examined and accepted, the said construction project can then formally commence production or operation.

Where, whilst carrying out trial operation with respect to the construction project, there is a failure to put the auxiliary environmental protection facilities into trial operation at the same time as the main parts of the project, the competent department responsible for environmental protection which was responsible for examining and approving the Environmental Impact Assessment Documents shall order that the situation be rectified within a stipulated period of time; if, upon the expiry of the time, the situation has not been rectified, the said department shall order that the trial operation cease, and the competent department may impose a fine of up to RMB50,000. Where environmental protection facilities auxiliary to the construction project have not been built, or the equipment has not been examined and accepted, or the facilities have been examined and found to be unsatisfactory, but the main part of the said construction project has formally entered production or commenced operation, then the competent department responsible for environmental protection which was responsible for examining and approving the Environmental Impact Assessment Documents shall order to stop production or operation, and the department may impose a fine of up to RMB100,000.

Business Qualifications and Licenses

License for the Treatment of Household Waste

According to Management Rules on Municipal Household Waste (《城市生活垃圾管理辦法》) promulgated on 28 April 2007 and implemented on 1 July 2007 by the former Ministry of Construction, entities which are engaged in the treatment of household waste shall obtain the license for the treatment of household waste from the competent departments of construction (or environmental and health) under the government at municipality, town and county level. Those who fail to obtain such license are prohibited from conducting any activities in relation to the treatment of household waste.

The departments of construction (or environmental and health) under the government at municipality, town and county level shall determine the issue of license for the treatment of household waste through fair competition methods, such as tender, and issue such license to the winner accordingly. The departments of construction (or environmental and health) under the government at municipality, town and county level shall sign a contract regarding to the treatment of household waste, which covers agreements such as the operating period and quality of services and is attached as the schedule of the license for the treatment of household waste. Upon the expiration of the license for the treatment of household waste, entities that continue to be engaged in the treatment of household waste shall apply for extension with the authority which issued the original license within 30 days prior to the expiration of the valid term.

Electric Power Business Permit

According to the Regulations on Supervision of Electric Power (Decree No. 432 of the State Council)(《電力監管條例》(國務院令第四百三十二號)) promulgated on 15 February 2005 and implemented on 1 May 2005 by the State Council and the Regulation on the Administration of Electric Power Business Permit Provisions (Decree No. 9 of the State Electricity Regulatory Commission)(《電力業務許可證管理規定》(國家電力監管委員會令第9號)) promulgated on 13 October 2005 and implemented on 1 December 2005 by the former State Electricity Regulatory Commission which was amended by NDRC on 30 May 2015, an electric power business permit is required for engagement in electricity business within the territory of PRC. Any entity or individual is prohibited to join the electricity business without the foresaid permit.

The electric power business permit is valid for 20 years. Upon the expiration of electric power business permit, the permit-holders shall apply for renewal to the electricity regulatory authority within 30 days prior to the expiry.

The Regulation on the Administration of Electric Power Business Permit (《電力業務許可證管理規定》) was promulgated on 13 October 2005 by the State Electricity Regulatory Commission (hereinafter referred to as "**SERC**") which later mergers with National Energy Administration and took effect on 1 December 2005, and was amended on 30 May 2015. According to such regulation, an electric power business permit is required for engagement in electricity business within the territory of PRC. Except as otherwise permitted by the SERC, any entity or individual is prohibited to engage in the electricity business without an electric power business permit. The electricity business refers to electricity generation business, electricity transmission business and electricity supply business. The application of an electric power business permit shall be submitted to and approved by the SERC. The electric power business permit is valid for 20 years. Without the approval by the SERC, any entity or individual obtaining the electricity power business permit for electricity transmission or electricity power business permit for electricity supply shall not close down or suspend electricity business. Any entity or individual who illegally engages in electricity business without an electric power business permit shall be ordered to rectify and be confiscated the illegal incomes and may be imposed a fine of less than five times of the illegal incomes. Where such activity constitutes a crime, prosecution shall be initiated to determine the criminal responsibilities.

According to the Notice of National Energy Administration on Delegating the Administration of Approval of Electric Power Business Permit and Other Matters (《關於明確下放電力業務許可證核發職責等事項的通知》) promulgated on 25 November 2013 by the National Energy Administration, the power of approval of electric power business permit is delegated to six bureaus of National Energy Administration according to the principle of territoriality. The foresaid bureaus shall approve the electric business power permit directly. Electricity companies in Hainan province shall submit applications for an electric power business permit to South China Energy Regulatory Bureau of National Energy Administration.

License for Treatment of Hazardous Waste and Medical Waste

According to the Regulation on the Administration of License of Treatment of Hazardous Waste (《危險廢物經營許可證管理辦法》) promulgated on 30 May 2005 and amended on 7 December 2013 by the State Council, any entity collecting, storing and disposing hazardous waste within the territory of PRC shall obtain a license for treatment of hazardous waste as required. The licensee is allowed to engage in the collection, storage and disposal of various hazardous wastes. The environmental department in province, autonomous region and municipal government determines and issues the license.

The license for treatment of hazardous waste is valid for 5 years. Upon the expiration of the foresaid license, the licensees who seek for renewals shall submit their applications to the authority that issued the original license within 30 days prior to the expiry.

The Solid Waste Pollution Prevention and Treatment Law of the People's Republic of China《中華人民共和國固體廢物污染環境防治法》was initially promulgated by the SCNPC in 1995 and was subsequently amended in 2004, 2013 and 2015. Entities which are engaged in the collection, storage, transportation and treatment of solid waste shall obtain a license from the competent environmental authority at or above county level while entities which are conducting business operation utilising hazardous waste shall obtain a license from the competent environmental authority at provincial level or above. The Ministry of Environmental Protection of the PRC is in charge of issuing the National Catalog of Hazardous Waste (《國家危險廢物名錄》) in collaboration with other department of the central government of the PRC. The current National Catalog of Hazardous Waste was issued in June 2008, according to which solid or liquid waste exhibiting one or more of the following traits, corrosivity, toxicity, ignitability, reactivity and Infectivity, is regarded as hazardous waste. Medical waste is specifically listed as a hazardous waste.

Regulation on the Administration of Medical Waste (《醫療廢物管理條例》) was promulgated in June 2003 and subsequently amended in January 2011 by the State Council, which regulates the collection, transportation, storage, treatment and disposal of medical waste in the PRC. Enterprises engaged in treatment of medical waste shall obtain a license from the competent environmental authority at or above county level.

The Measures for the Administration of Hazardous Waste Operation License of Hunan Province (《湖南省危險廢物經營許可證管理辦法》) was promulgated on 13 December 2012 and implemented on 13 January 2013 by Environmental Protection Department of Hunan. According to such measures, hazardous waste operation license has three categories, i.e., hazardous waste operation license for hazardous waste collection, storage, treatment and utilisation (hereinafter referred to as "**Comprehensive Operation License**"), hazardous waste operation license for hazardous waste collection and hazardous waste operation license for medical waste treatment. The hazardous waste operation license for hazardous waste collection shall be approved by the competent environmental protection department at county level and filed a record to the competent environmental protection department at provincial level. The hazardous waste operation license for medical waste treatment shall be approved by the competent environmental protection department at municipal level and filed a record to the competent environmental protection department at provincial level. The Comprehensive Operation License shall be approved by the competent environmental protection department at provincial level.

A company can only apply for an interim hazardous waste operation license, which is valid for three months or less than one year, during its trial operation period. The Comprehensive Operation License is valid for five years and the hazardous waste operation license for hazardous waste collection is valid for three years for an eligible applicant incorporated in an Industry Park. An interim hazardous waste operation license, which is valid for one year, will be issued to an eligible applicant not in the Industry Park. A renewal application for the hazardous waste operation license is required within thirty days before the expiration date of such license.

An annual hazardous waste operation report by the licensee shall be submitted to and examined by the authorities, which issued the license. Under the following circumstances, the authorities which issued the hazardous waste operation license may temporarily suspend or revoke the license：(i) failure by the licensee to submit the annual hazardous waste operation report within a prescribed time period or failure to pass the authorities' examination of such report; (ii) failure by the licensee to submit complete required documents or failure to submit required documents within a prescribed time period; (iii) failure by the licensee to make rectifications within a prescribed time when the licensee is required to do so by authorities; and (iv) non-compliance by the licensee of the hazardous waste operation license and occurrence of material environmental pollution accident.

Use Registration Certificate regarding to the Special Equipment

According to the Law of the People's Republic of China on Special Equipment Safety (Presidential Decree No.4) (《中華人民共和國特種設備安全法》(主席令第四號)), which was promulgated on 29 June 2013 by SCNPC and came into effect on 1 January 2014, special equipment refers to boilers, pressure vessels (including gas cylinders), pressure pipes and other equipments that may pose a threat to personal and property safety. Special equipment users shall, within 30 days before or after the equipment is put into use, go through registration to authorities in charge of special equipment safety and obtain use registration certificates.

Road Transport License

According to the Regulation on Administration of Road Transport of Dangerous Goods (Decree No. 2, 2013 of Ministry of Transport)(《道路危險貨物運輸管理規定》(交通運輸部令2013年第2號)), promulgated on 19 February 2013 and implemented on 1 July 2013 by Ministry of Transport, any entity applies for engaging into the road transport of dangerous goods shall submit its application of Road Transport License to the road transport administrative authority at the municipality level.

Water Withdrawal License

According to the Water Law of the People's Republic of China (amended in 2002) (Presidential Decree No. 74)(《中華人民共和國水法》(2002年修正)(主席令第七十四號)), which was enacted by the SCNPC on 29 August 2002 and became effective on 1 October 2002, the Regulations on Administration of Water Withdrawal Licensing and Collection of Water Resources Charges (Decree No. 460 of State Council)(《取水許可和水資源費徵收管理條例》(國務院令第四百六十號)), which was promulgated by the State Council and became effective on 15 April 2006, and the Measures on Administration of Water Withdrawal Licensing (Decree No. 34 of Ministry of Water Resources)(《取水許可管理辦法》(水利部令第34號)), which was promulgated by the Ministry of Water Resources and became effective on 9 April 2008, except for the ones lawfully exempted from applying for a water withdrawal license, entities and individuals that obtain water resources from rivers, lakes or underground, and have water extradition works and facilities completed and conducted 30-day trial run, shall apply for water license with the competent departments of water administration or drainage management under the municipal government at county level or above, and obtain the water rights, subject to water resources fee. Water withdrawal shall be limited within the approved annual water withdrawal plan, and any exceeding portion shall be charged with an extra fee. Any amendment to annual water withdrawal plan due to expansion of business and other situations shall receive approval from the original authority.

Water license generally lasts for 5 years but not more than 10 years. Within 45 days prior to the expiration of the license, licensees who seek for renewals shall submit the applications to the original approving authorities.

Pollutant Discharge License

The Air Pollution Prevention and Control Law of the People's Republic of China (Presidential Decree No. 31)(《中華人民共和國大氣污染防治法》(主席令第三十一號)), which became effective on 1 January 2016, and the Water Pollution Prevention and Control Law of the People's Republic of China (Presidential Decree No. 87)(《中華人民共和國水污染防治法》(主席令第八十七號)), which became effective on 1 June 2008, announced the implementation of pollutants discharge licensing system. Certain local regulations have set out specific requirements for the approval of pollutant discharge licenses, such as the Measures for the Administration of Water Pollutants Discharge Licenses of Jiangsu Province (《江蘇省排放水污染物許可證管理辦法》), which was promulgated by the government of Jiangsu Province and became effective on 1 October 2011, and Interim Measures for the Administration of Pollutants Discharge Licenses of Hunan Province (《湖南省排污許可證管理暫行辦法》), which was promulgated on 31 December 2003 and came into effect on 1 January 2004 by Environmental Protection Department of Hunan.

According to the regulations in various provinces, pollutant discharge licenses, including interim licenses, shall be approved and issued by the competent environmental protection administration at county level or above. Pollutant discharge licenses are generally valid for three to five years. Interim pollutant discharge licenses are generally valid for one year, which is the same period for trial operation and trial run as well as the prescribed period for remedial actions. Upon the expiration of the terms of each license, licensees who seek for extensions shall apply for a new license with the foresaid authorities.

Drainge License

According to the Measures for the Management of Discharging Urban Sewage into Drainge Pipe Network Permit (《城鎮污水排入排水管網許可管理辦法》), which was enacted by the Ministry of Housing and Urban-rural Construction on January 22, 2015 and became effective on March 1, 2015, entities and individuals that engaged in manufacturing, construction, electricity and gas production, scientific research, health, accommodation, catering, entertainment management, resident services and other service activities shall apply for Drainage License if they discharge sewage into the urban drainge pipe network or its accessory facilities.

Drainge license generally lasts for 5 years but not more than 10 years. Within 30 days prior to the expiration of the license, licensees who seek for renewals shall submit the application to the original approving authorities.

Environmental Protection

According to Environmental Protection Law of People's Republic of China (Presidential Decree No. 22)(《中華人民共和國環境保護法》(主席令第二十二號)), which became effective on 1 January 2015, entities shall take effective measures to prevent and control pollution and damages to the environment, and shall be liable for damages caused by them pursuant to the law. The design, construction and commission of facilities for the prevention and control of pollution shall be conducted at the same time with that of the project's main body.

Labor Protection

The PRC Labor Law(Presidential Decree No. 28)(《中華人民共和國勞動法》(主席令第二十八號)), which was amended and became effective on 27 August 2009, is formulated in order to protect the legal rights and interests of workers, to regulate labor relations, to establish and safeguard a labor system that is adaptable to the socialist market economy and to promote economic development and social progress. The PRC Labor Contract Law (Presidential Decree No. 65)(《中華人民共和國勞動合同法》(主席令第六十五號)),which became effective on 1 January 2008 and amended on 1 July 2013, stipulated rules about the establishment, performance, variation, rescission or termination of labor contracts, and issues about collective contracts and workers on secondment.

Taxes and Foreign Currency Exchange

Enterprise Income Tax

According to the Enterprise Income Tax Law of the People's Republic of China(Presidential Decree No. 63)(《中華人民共和國企業所得稅法》(主席令第六十三號)), which became effective on 1 January 2008 (the "**EIT Law**"), and the Implementation Rules to the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), which became effective on 1 January 2008 (the "**Implementation Rules**"), both domestic and foreign-invested enterprises are subject to the same income tax rate of 25%. Pursuant to the Notice on the Implementation of the Enterprises Income Tax Transitional Preferential Policy (Guo Fa [2007] No. 39)(《國務院關於實施企業所得稅過渡優惠政策的通知》(國發[2007]39號)) promulgated and implemented on 26 December 2007 by the State Council, enterprises, which were established before the issue of EIT Law and previously enjoyed lower tax rate pursuant to the provisions of the then tax laws, administrative regulations or any equivalent documents, may gradually transit to the adoption of the legal tax rate within five years after the implementation of the EIT Law. For the enterprises which were established before the issue of EIT Law and previously were entitled to tax reduction or concession for a fixed term pursuant to the provisions of the then tax laws, administrative regulations or any equivalent documents, the preferential treatment may continue until the expire date after the implementation of the EIT Law, however, for those which were not entitled to such preferential treatment due to the failure of making any profit, the preferential treatment term shall start from the year of 2008.

According to the EIT Law and the Implementation Rules, the Catalog of Enterprise Income Tax Preferences in Environmental Protection and Energy and Water Saving Programs (Trial)(《環境保護、節能節水項目企業所得稅優惠目錄(試行)》) which became effective on 1 January 2008, and the Notice of Enterprise Income Tax Preferential Incentives for Public Infrastructure Projects and Energy-saving Projects by Ministry of Finance and State Administration of Taxation (《財政部、國家稅務總局關於公共基礎設施項目和環境保護節能節水項目企業所得稅優惠政策問題的通知》), incomes derived from environmental protection projects or energy and water saving projects that meet applicable requirements shall be exempted from enterprise income tax for three years commencing from the first year that generates revenue and thereafter be entitled to a 50% reduction from enterprise income tax for the following three years. Where a project which is entitled to the foresaid tax reduction and exemption incentives is transferred within the tax exemption and reduction period, the transferee shall enjoy the stipulated tax reduction and exemption incentives during the remaining term with effect from the date of transfer; where a project is transferred after the tax exemption and reduction period has expired, the transferee shall not be entitled to tax reduction and exemption incentives for the project. The projects listed in the foresaid Catalog and Notice include hazardous waste treatment projects and household waste treatment projects, and the relevant project companies are entitled to the tax exemption and reduction based on the above schedule.

Enterprise Income Tax on indirect Equity Interest Transfer by Non-resident Enterprises

On 10 December 2009, the State Administration of Taxation promulgated the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or Circular 698, which has a retroactive effect from 1 January 2008. According to Circular 698, when a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposing of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, non-PRC resident enterprise, being the transferor, shall report this Indirect Transfer to the competent tax authority of the PRC resident enterprise., The PRC tax authority may, using a "substance over form" principle, disregard the existence of the overseas holding company if the Indirect Transfer lacks a reasonable commercial purpose and is arranged for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax at a rate of up to 10%. Circular 698 also provides that in the event that a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than their fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

On 3 February 2015, the State Administration of Taxation issued the Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) by Non-resident Enterprises, or Circular 7, which abolishes certain provisions of Circular 698 and also provides more guidance on a number of issues in Circular 698. Compared with Circular 698, the applicable scope of Circular 7 is expanded from indirect transfer of equity interests to indirect transfer of China taxable assets. "Indirect transfer of China taxable assets" refers to those transactions where a non-resident enterprise transfers the equity interests or other similar interest of an offshore company (excluding overseas-registered Chinese resident enterprises) which directly or indirectly holds China taxable assets, resulting in the same or a similar effect as that of direct transfer of China taxable assets, including the change in shareholders of offshore enterprises caused by restructuring of non-resident enterprises.

Pursuant to Circular 7, in order to determine the existence of reasonable commercial purposes, all the arrangements relating to an indirect transfer of China taxable assets should be taken into account and the following factors should be analysed in conjunction with the facts and circumstances on a comprehensive basis: (1) Whether the main value of the offshore enterprise's equity is directly or indirectly attributable to China taxable assets; (2) Whether the assets of the offshore enterprise are mainly comprised of, directly or indirectly, the investment in China or whether the income derived by the offshore enterprise is mainly sourced, directly or indirectly, from China; (3) Whether the functions performed and the risks assumed by the offshore enterprise and its subsidiaries that directly or indirectly hold China taxable assets are able to prove that there is economic substance for the group structure; (4) The duration of the shareholders of the offshore enterprise, its business model and the relevant organization structure; (5) The status of the income tax payable offshore in respect of the indirect transfer of China taxable assets; (6) Whether the indirect investment or the indirect transfer of China taxable assets by the equity transferor can be substituted by a direct investment or a direct transfer of China taxable assets; (7) The applicability of double tax treaty or arrangement for the indirect transfer of China taxable assets in the host country or region of the transferor; and (8) Other relevant factors.

An intra-group restructuring that satisfies all of the following conditions shall be regarded as having reasonable commercial purposes and exempt from income tax in China: (1) the transferor holds or is held by the transferee or both parties are mutually held by another party, directly or indirectly, for over 80% of the shares; if over 50% (exclusive) of the value of the equity interest of an offshore enterprise is, directly or indirectly, attributable to immovable properties in China, the aforementioned 80% shareholding requirement shall be increased to 100%; (2) the enterprise income tax burden of a future indirect transfer transaction that would be occurred after the existing indirect transfer shall not be reduced as compared with that of the same or a similar transaction occurred in the absence of the existing indirect transfer; and (3) the transferee pays all of the consideration with its shares or the shares of other enterprises which are controlled by the transferee or controlled by the controlling shareholder of the transferee.

The overall arrangements relating to an indirect transfer of China taxable assets fulfill one of the following conditions: (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling equity interests of a listed overseas company on a public market; and (ii) where the non-resident enterprise had directly held and transferred such China taxable assets, the income from the transfer of such PRC China taxable assets would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

If enterprise income tax is to be imposed on an indirect transfer of China taxable assets, the tax withholding agent shall be the entity or individual that has direct payment obligation to the equity transferor. If the withholding agent fails to withhold or not fully withhold the tax, the transferor shall declare the tax with the competent tax authority within 7 days from the date when the tax obligation arises. Where the withholding agent fails to withhold tax and the transferor fails to declare such tax, the tax authority may impose a penalty based on the applicable tax administration regulations, however, the penalty imposed on the withholding agent may be mitigated or waived on the condition that it has submitted the required materials relevant to the indirect transfer to the competent tax authority within 30 days upon signing the relevant equity transfer contract or agreement.

Business Tax

According to the Letter of Reply Regarding Business Tax on Waste Treatment of the SAT (Guo Shui Han [2005]No. 1128) (《國家稅務總局關於垃圾處置費徵收營業稅問題的批復》(國稅函[2005]1128號)), which became effective on 30 November 2005, the waste treatment activities conducted by entities and individuals are not subject to business tax and shall not be taxable on the income derived from waste treatment activities. According to the Letter of Reply Regarding Exemption of Business Tax on income generated from the Hazardous Waste Treatment of the SAT (Guo Shui Han [2009]No. 587) (《國家稅務總局關於處置危險廢物取得收入征免營業稅問題的批復》(國稅函[2009]587號)), which became effective on 20 October 2009, the hazardous waste treatment activities conducted by entities and individuals are regarded as waste treatment. As a result, hazardous waste treatment activities are not subject to business tax and shall not be taxable on the income derived from waste treatment activities. Under these notices, the Household Waste Treatment Projects and the Hazardous Waste Treatment Project are entitled to an exemption of their business taxes.

Value-added Tax

According to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Comprehensive Utilisation of Resources (Cai Shui [2015] No. 78)(《關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知》(財稅[2015]78號)), which became effective on 1 July 2015, sales of electric power or heating power generated from waste-to-energy incineration and waste treatment activities are entitled to a refund of the value-added tax levied. Under this notice, sales of electric power or heating power generated from waste to energy incineration are entitled to a refund of 100% of the VAT, while the waste treatment activities are entitled to a refund of 70% of the VAT.

Foreign Currency Exchange

According to the Foreign Exchange Administration Rules of the PRC (amended in 2008)(《中華人民共和國外匯管理條例(2008年修訂)》), which became effective on 1 April 1996 and was amended and implemented on 5 August 2008, the foreign exchange receipts of domestic organizations and domestic individuals may be remitted into PRC or deposited overseas. Payment and receipt of foreign exchange under current items shall be based on true and legal transactions. Capital item foreign exchange and settlement funds shall be used for the purposes approved by national foreign exchange administrative authorities. Where the international balance of payments has become or may become seriously unbalanced and the national economy has encountered or may encounter a serious crisis, the State may adopt the requisite safeguard and control measures for international balance of payments. The said rule has enhanced the supervision and administration of the transactions involving foreign exchange, which provides a wide range of power to State Administration of Foreign Exchange to improve its ability as a supervisor and administrator.

Foreign exchange settlement does not apply to capital items, such as capital transfer, direct investment, equity investment, derivative products or loans unless prior approval by competent foreign exchange administrative authorities is obtained. Foreign institutions or individuals conducting direct investment in the PRC shall register with the foreign exchange administrative department after obtaining the approval from the competent authority. The PRC institutions or individuals conducting direct investment overseas or issuing or trading negotiable securities or derivative products overseas shall complete the registration according to the requirements of the national foreign exchange administrative authorities. The terms or conditions for such transfer or deposit are subject to regulations of relevant foreign exchange authorities. The transfer of capital item foreign exchange to overseas shall be conducted pursuant to the requirements of the national foreign exchange administrative authorities. The foreign exchange funds to be transferred overseas shall be self-owned funds or purchased from financial institutions engaged in foreign exchange settlement business.

Past Non-compliance Incidents

The following is the detail of past non-compliance incidents of the Target Group during the Track Record Period.

1. Beikong Wenchang

Failure to complete the environmental protection completion acceptance for construction project

The waste incineration power plant of the Beikong Wenchang Project operated by Beikong Wenchang has not completed environmental protection completion acceptance. The inability to complete the environmental protection completion acceptance is largely as a result of the delay in construction of (i) the coal ash landfill site and (ii) the leachate upgrade project, both of which shall be invested and constructed by Bureau of Housing and Urban-rural Development of Wenchang ("**Wenchang Development Bureau**") as Wenchang Development

Bureau has the obligation of properly treating or disposing coal ash, slag and leachate pursuant to the Approval for Environmental Assessment in respect of the Beikong Wenchang Project (《海南省國土環境資源廳關於海南省文昌市生活垃圾焚燒發電廠(225噸／日)環境影響報告書的批復》) issued by the Department of Land, Environment and Resources of Hainan (the predecessor of Department of Ecology and Environmental Protection of Hainan, "**Hainan Environmental Department**") to the Wenchang Development Bureau on 13 July 2009. Failure to construct or delay in construction of the aforesaid facilities on the part of the Wenchang Development Bureau is not within the control of Beikong Wenchang and Beikong Wenchang has taken all remedial actions as reasonably necessary to rectify the non-compliance incidents. The Company is of the view that each environmental monitoring indicator of project facilities operated by Beikong Wenchang is in compliance with the environmental protection requirements.

As the Beikong Wenchang Project did not complete the environmental protection completion acceptance procedures, in August 2014, the Wenchang Bureau of Land, Environment and Resources (predecessor of Wenchang Bureau of Ecological and Environmental Protection) ordered Beikong Wenchang to cease operation of the waste incineration power plant and imposed an administrative sanction of RMB50,000 as set out in the Administrative Sanction Decision (行政處罰決定書) Wen Tu Huang Zi Fa Zi [2014] No.37 (文土環資罰字[2014]37號)(the "**Wenchang Decision**"). After issuing the Wenchang Decision, Wenchang Bureau of Land, Environment and Resources requested the People's Court of Wenchang, Hainan to enforce the administrative sanction. The People's Court of Wenchang, Hainan approved the enforcement of the Wenchang Decision as set out in the Administrative Ruling (行政裁定書)(2015) Wen Xing Ta Zi No.9 ((2015)文行他字第9號) in January 2015. However, the Wenchang Bureau of Land, Environment and Resources later requested the People's Court of Wenchang, Hainan to suspend enforcement of the Wenchang Decision for the reason that immediate suspension of the waste incineration power plant may cause significant economic loss to the power plant and some workers are currently living inside the factory. Upon an order of immediate suspension, the workers living inside the factory would become unemployed, and may become an instability factor to the society. On 27 May 2015, the People's Court of Wenchang, Hainan issued the Enforcement Ruling (2015) Wen Zhi Zi No.72 ((2015)文執字72號), approving the suspension of enforcement of the Wenchang Decision. After the suspension of enforcement, the Wenchang Bureau of Land, Environment and Resources may request the People's Court of Wenchang, Hainan to resume enforcement when the reason for such suspension does not stand. However, based on the PRC Legal Adviser's discussion with Wenchang Bureau of Ecological and Environmental Protection on 16 May 2016, Wenchang Bureau of Land, Environment and Resources applied to the court for enforcement mainly because Beikong Wenchang had defaulted on a payment of a fine of more than RMB2,000. Beikong Wenchang had settled the aforesaid fine subsequently and the Wenchang Bureau of Ecological and Environmental Protection confirmed that it will no longer apply for the enforcement of the Wenchang Decision.

As advised by the PRC Legal Adviser: (1) the reason for suspension of enforcement of the Wenchang Decision is to avoid a significant economic loss of the waste incineration power plant and unemployment of the workers of the factory, causing an instability to the society, the suspension of enforcement still stands, and it is foreseeable that it will continue to stand prior to Beikong Wenchang's environmental protection completion acceptance. (2) Wenchang Bureau of Ecological and Environmental Protection has confirmed that it will not apply for the enforcement of the Wenchang Decision prior to Beikong Wenchang's environmental protection completion acceptance. After Beikong Wenchang completes the environmental protection completion acceptance, the basis for enforcement of the Wenchang Decision will no longer stand, and accordingly, enforcement will not take place.

Beikong Wenchang and the Wenchang Development Bureau jointly applied to Hainan Environmental Department in April 2015 for the environmental protection completion acceptance of the waste incineration power plant of Beikong Wenchang. However, as supporting facilities invested by the government has not been settled and completed, the Hainan Environmental Department issued a letter ("**Reply Letter**") on 19 June 2015 ordering Beikong Wenchang to complete rectification prior to 31 December 2015, and re-apply to Hainan Environmental Department for environmental protection completion acceptance, failing which Hainan Environmental Department will take further actions in accordance with the PRC laws.

As at the Latest Practicable Date, Beikong Wenchang has met the conditions for environmental protection completion acceptance except that the coal ash landfill site is not constructed and the leachate upgrade project is not completed, the construction of both being invested by the Wenchang Development Bureau. The Wenchang Development Bureau issued a written explanatory note on 16 May 2016 stating that the construction of the coal ash landfill zone is expected to be completed, accepted and put into use in December 2017, and that the inspection and acceptance on completion of the leachate upgrade project (which will enable the factory to treat the waste leachate in advance level and reuse, and the incident storage pool for waste leachate will also meet the condition for use) will take place prior to October 2016. As the Wenchang Development Bureau is in charge of the construction of the coal ash landfill, Beikong Wenchang cannot control or interfere with the specific process of the construction. According to the written explanatory note issued by the

Wenchang Development Bureau on 16 May 2016, the Wenchang Development Bureau has commenced preparation of materials and documentation for the application to local environmental authority for environmental impact assessment approval for the construction of the coal ash landfill zone since 2013. As at the Latest Practicable Date, the Wenchang Development Bureau has submitted the aforesaid documents for approval. To the best knowledge of Beikong Wenchang and in accordance with industry practice, it will take several months for Wenchang Development Bureau to obtain all approval for the construction of the coal ash landfill.

After completion of the leachate upgrade project, the Wenchang Development Bureau will apply to the Hainan Environmental Department for environmental protection completion acceptance of the waste incineration power plant.

Based on the PRC Legal Adviser's discussion with the environmental assessment office under Hainan Environmental Department on 18 May 2016, the Hainan Environmental Department is aware of Beikong Wenchang's continued rectification since 31 December 2015, and has not imposed any administrative sanction on Beikong Wenchang for the failure to obtain environmental protection completion acceptance considering that Beikong Wenchang Project is an infrastructure project involving public interest, and that Beikong Wenchang adopts harmless treatment and packaging to ensure that the coal ash will not cause environmental pollution. According to the principle that non-compliance of production and operation of businesses related to basic livelihood and public interest shall not be suspended pending rectification as stipulated in the Measures for the Implementation by Competent Environmental as Protection Departments of Limiting and Halting Production for Remediation (環境保護主管部門實施限制生產、停產整治辦法), Hainan Environmental Department recognises and agrees that Beikong Wenchang will continue to operate the household waste incineration power plant while rectifying the issues required for completion of the environmental protection completion acceptance, and expressed that it will not impose administrative sanctions on Beikong Wenchang even though the environmental protection completion acceptance is not yet completed.

As advised by the PRC Legal Adviser, as (1) the Beikong Wenchang Project has been verified by the competent authority authorised by People's Government of Hainan, and has implemented the pollution prevention and treatment measures generally consistent with the requirements of the environmental assessment report and the Reply Letter. The Beikong Wenchang Project meets the "Three Simultaneous" (三同時) requirement for environmental protection, and has obtained the approval for trial operation. The Beikong

Wenchang Project failed to obtain environmental protection completion acceptance because the supporting facilities invested by the government has not been settled and completed; (2) pursuant to the concession agreement, the Beikong Wenchang Project is exclusive, and the waste incineration project is related to basic livelihood and public interest and accordingly, if the facilities are suspended, public interest may be impacted; (3) the People's Court of Wenchang ruled to suspend the enforcement of the Wenchang Decision. The Wenchang Bureau of Ecological and Environmental Protection expressed that it will not apply for enforcement again prior to Beikong Wenchang obtaining the environmental protection completion acceptance; (4) Hainan Environmental Department is the competent administrative authority that regulates the environmental protection completion acceptance of the waste incineration power plant in Hainan Province. Hainan Environmental Department recognises and agrees that Beikong Wenchang will continue to operate the waste incineration power plant while rectifying the issues required for completion of the environmental protection completion acceptance and it will not impose administrative sanctions on Beikong Wenchang before the waste incineration power plant completes the environmental protection completion acceptance. Accordingly, the risk that the waste incineration power plant will be suspended or receive other administrative sanctions due to the fact that it has not completed the environmental protection completion acceptance is very low.

Since environmental protection completion acceptance is the condition for obtaining the Electric Power Business Permit and the Pollutant Discharge License, Beikong Wenchang is ineligible to obtain and has not obtained the Electric Power Business Permit and the Pollutant Discharge License.

Ineligibility to obtain and failure to obtain the Electric Power Business Permit:

Beikong Wenchang owns and operates a waste incineration power plant with a total installed capacity of 6000kWh in Wenchang, Hainan. The power plant has been generating power within the power network managed by Hainan Power Grid Co., Ltd since July 2012 and has been incorporated in the network since July 2012. However, Beikong Wenchang for the purposes of the operation of a WTE plant, has not obtained the Electric Power Business Permit. Due to the fact that the relevant supporting facilities invested by the government are not completed, Beikong Wenchang is unable to obtain the Electric Power Business Permit. Pursuant to PRC laws and regulations, captive power plants incorporated in the network shall apply to the State Electric Power Supervisory Commission (the predecessor of National Energy Administration) for the Electric Power Business Permit. An entity engaged in electric power business without obtaining the Electric Power Business Permit shall be reprimanded and the relevant illicit gains shall be confiscated. Further, the relevant entity is liable to a fine of no more than 5 times of such illicit gains. Where it constitutes a criminal offense, the relevant entity shall be held criminally liable under the law.

In December 2015, the South China Energy Regulatory Bureau of National Energy Administration of the PRC issued a letter to Hainan Power Grid Co., Ltd. (power purchaser of Beikong Wenchang), stating that Hainan Power Grid Co., Ltd. has incorporated some new energy power enterprises which did not obtain the Electric Power Business Permit, and requiring Hainan Power Grid Co., Ltd. to complete rectification works prior to 30 December 2015, failing which the South China Energy Regulatory Bureau of National Energy Administration of the PRC will take further actions in accordance with PRC laws. Beikong Wenchang has received oral notice from Hainan Power Grid Co., Ltd. requesting Beikong Wenchang to obtain the Electric Power Business Permit.

PRC Legal Adviser has communicated with Hainan Power Grid Co., Ltd., on 18 May 2016 and the latter had expressed that: (1) Hainan Power Grid Co., Ltd. has notified the South China Energy Regulatory Bureau of National Energy Administration of the PRC that Beikong Wenchang has not obtained the Electric Power Business Permit, and the reason why Beikong Wenchang has not obtained the license (due to supporting facilities invested by the government not yet settled and completed), and South China Energy Regulatory Bureau of National Energy Administration of the PRC has not reverted with any further instructions to Hainan Power Grid Co., Ltd; (2) household waste-to-energy is a renewable energy. Pursuant to PRC laws and regulations, power grid enterprises shall fully purchase the on-grid power from a renewable energy on-grid power generation project within the range of its network coverage, and provide incorporation services for the renewable energy power generation. Therefore, provided that the South China Energy Regulatory Bureau of National Energy Administration of the PRC has not ordered Hainan Power Grid Co., Ltd. to stop providing incorporation services for the power generated by Beikong Wenchang because Beikong Wenchang has not obtained the Electric Power Business Permit, Hainan Power Grid Co., Ltd. will continue to perform its obligations under the Power Purchase and Sales Agreement valid until 31 December 2016 which it entered into with Beikong Wenchang, and will renew the aforesaid agreement after its expiration; (3) there are a number of conditions for obtaining the Electric Power Business Permit, including providing the environmental protection completion acceptance certificate issued by the competent environmental administrative authority or other forms of legal proof meeting the relevant environmental protection requirement. Since it takes a long time to obtain the environmental protection completion acceptance after the completion of the construction of the project, it is an industry practice for power generation companies to apply for the

Electric Power Business Permit after incorporating the power generated to the power grid enterprises; (4) as far as Hainan Power Grid Co., Ltd. understands, South China Energy Regulatory Bureau of National Energy Administration of the PRC will not normally impose administrative sanctions on power generation companies who fail to obtain the Electric Power Business Permit within two years after incorporation. There are precedent cases where South China Energy Regulatory Bureau of National Energy Administration of the PRC imposed a fine on power generation companies that failed to obtain the Electric Power Business Permit for a long period of time. However, so far as Hainan Power Grid Co., Ltd. understands, there are no precedent cases where South China Energy Regulatory Bureau of National Energy Administration of the PRC ordered a power grid enterprise to stop providing incorporation services (i.e. requiring power generation companies to stop generating power) to power generation companies in Hainan.

For reasons as set out above, it is an industry norm for a power generation company to commence operations before obtaining the Electric Power Business Permit.

Beikong Wenchang has been procuring Wenchang Development Bureau to promptly implement the supporting facilities for the waste incineration power plant. Wenchang Development Bureau has issued a written explanation to Beikong Wenchang that the supporting coal ash landfill site and the leachate upgrade project (including waste leachate incident storage pool) are expected to be completed and put into use in December 2017 and October 2016 respectively. Once the government's supporting facilities are completed, the Wenchang Development Bureau will apply for the environmental protection completion acceptance for the waste incineration power plant, and then Beikong Wenchang will immediately begin to apply for the Electric Power Business Permit.

As advised by the PRC Legal Adviser, in respect of the administrative sanction of rectification, confiscating illicit gains and imposing fines, (1) South China Energy Regulatory Bureau of National Energy Administration of the PRC is aware that some new power grid enterprises of Hainan Power Grid Co., Ltd have not obtained the Electric Power Business Permit as required, and has understood the relevant rectification measures. It has ordered Hainan Power Grid Co., Ltd. to rectify and regulate its business; (2) in rectification, for Beikong Wenchang, Wenchang Development Bureau, together with Beikong Wenchang has adopted measures to improve the supporting environmental project and cooperate with each other to regulate the business; and (3) Beikong Wenchang failed to obtain the Electric Power Business Permit due to delay of the project invested by the government. As a result, the likelihood of Beikong Wenchang to be penalized due to failure to obtain the Electric Power Business Permit is low.

As advised by the PRC Legal Adviser, as to criminal sanctions, (1) bearing criminal liability requires intention or negligence. The waste incineration power plant developed and operated by Beikong Wenchang is under the concession rights granted from the concession agreement and the power sales contract is properly reviewed and executed by Hainan Power Grid Co., Ltd.. Beikong Wenchang has no intentional or negligent concealment of facts or improper engagement in business and causing serious social impact; (2) the PRC Legal Adviser does not consider that Beikong Wenchang has intentionally or negligently harm public interest in a serious extent in its construction and operation of the project pursuant to the concession agreement. Accordingly, the likelihood of Beikong Wenchang having to bear criminal liability due to the above non-compliance incident is low.

2. Hunan Hengxing

Failure to obtain environmental protection completion acceptance for construction project

Hunan Hengxing obtained the approval to start trial operations from the Environmental Protection Department of Hunan in May 2013. During the trial operations, Hunan Hengxing found that some environmental protection facilities of the project needed to be improved. Hunan Hengxing began relevant rectification and improvement works since October 2013. In May 2014, when the trial operation period expired, some environmental protection measures did not meet the requirement for applying for environmental protection completion acceptance and more time was needed for improvement works, Hunan Hengxing applied to the Environmental Protection Department of Hunan through the Bureau of the Environmental Protection of Hengyang for an extension of trial operations. The Bureau of Environmental Protection of Hengyang submitted to the Environmental Protection Department of Hunan its preliminary opinion on application for extension of trial operation of Hunan Hengxing on 16 June 2014, indicating that it proposed to approve the application for extension of the project and requested the Environmental Protection Department of Hunan for instruction. The Environmental Protection Department of Hunan has not issued any written response about the aforesaid preliminary opinion.

Hunan Hengxing is currently preparing for environmental protection completion acceptance submission. On 24 March 2016, Hunan Hengxing and Changsha Yude Technology Co., Ltd. ("**Yude Technology**") entered into the technical consultation contract No.HXHB-2016-0310 pursuant to which it entrusted Yude Technology to take charge of technical consultation for the Hengyang hazardous waste disposal center of Hunan during the period of environmental protection completion acceptance and monitoring. Hunan Hengxing has commenced the environmental monitoring procedures.

According to Hunan Hengxing's discussion with the monitoring center of the Environmental Protection Department of Hunan on 16 May 2016, the Environmental Protection Department of Hunan recognises that Hunan Hengxing will continue trial operations while carrying out relevant rectification works. Qualified environmental monitoring institutions are conducting environmental monitoring on Hunan Hengxing, which is a necessary step for environmental protection completion acceptance, and indicates that Hunan Hengxing is applying for environmental protection completion acceptance. Whereas environmental monitoring as a stage of environmental protection completion acceptance relies on Hunan Hengxing's generation of various indicators from its continued operation, it shows that the company will not face the risk of being ordered to suspend production or other administrative sanctions. Provided that the surroundings of the hazardous waste center of the Hunan Hengxing Project is safe and not seriously polluted and that the tuning is continuing, there will not be any substantial obstacle for the environmental protection completion acceptance of the hazardous waste center of the Hunan Hengxing Project.

As advised by the PRC Legal Adviser, (1) Hunan Hengxing has obtained the approval for trial operation with a valid period of 1 year on 29 May 2013. Upon expiration of the aforesaid valid period of production, Hunan Hengxing applied to competent environmental authority for extension of trial operation and obtained a preliminary opinion approving extension from the Environmental Protection Bureau. Even though the Environmental Protection Department of Hunan has not issued any written response in relation to the aforesaid preliminary opinion, such extension documents have been submitted to local environmental monitoring authority as required, and there is no evidence that the Environmental Protection Department of Hunan issued any negative opinion; (2) Hunan Hengxing carried out rectification works for passing the environmental protection completion acceptance since October 2013, and the rectification works are expected to be completed soon; and (3) Hunan Hengxing is now applying for environmental protection completion acceptance. Therefore, the likelihood of Hunan Hengxing to be ordered to suspend its operations or receive other administrative sanctions because it put hazardous waste center of the Hunan Hengxing Project into production and use without obtaining the environmental protection completion acceptance is low.

As explained by Hunan Hengxing, since environmental protection completion acceptance is the condition for obtaining the Pollutant Discharge License, Hunan Hengxing is ineligible to obtain and has not obtained the Pollutant Discharge License.

3. *Ha'erbin Shuangqi*

Failure to obtain environmental protection completion acceptance for construction project

The household waste modification project operated by Ha'erbin Shuangqi has not completed the environmental protection completion acceptance for the following main reasons: one of the criteria of environmental protection completion acceptance prescribes that no residential facilities are allowed to be built within 300 metres (safety distance) of the household waste incineration power generation modification and expansion project. However, a residential facility, Longda Elderly Apartments(龍達老年公寓), located within the restricted area has not been relocated, and the local government is responsible for such relocation.

On 7 January 2016, the Environmental Protection Bureau of Ha'erbin issued Decision of Illegal Action Rectification Order(責令改正違法行為決定書)((Ha) Huan Gai Zi [2016] No.(4130863))((哈)環改字[2016]第(4130863)號)("**Ha'erbin Decision**") which states that the supporting environmental protection facilities required for the construction project of Ha'erbin Shuangqi have not completed environmental protection completion acceptance while it is put in production or use, and ordered for the immediate suspension of production and use by 8 January 2016, failing which the Environmental Protection Bureau of Ha'erbin will impose an administrative sanction according to the law or apply to the court for enforcement. Upon the receipt of the Ha'erbin Decision, Ha'erbin Shuangqi submitted an explanation statement to the Environmental Protection Bureau of Ha'erbin, the main content of which is as follows: (1) the delay of environmental protection completion acceptance is because Longda Elderly Apartments(龍達老年公寓)has not yet been relocated, and the local government is responsible for such relocation; (2) The household waste in Ha'erbin city cannot be properly disposed if the operation of Ha'erbin Shuangqi's modification project is suspended; and (3) the suspension of operation would incur a low temperature issue with the waste management facilities, resulting in substantial loss. Upon receipt of the explanation statement from Ha'erbin Shuangqi, the Environmental Protection Bureau of Ha'erbin issued a written letter on February 5, 2016 to Ha'erbin Shuangqi, pursuant to which, (1) the Department of Environmental Protection of Heilongjiang Province did not carry out environmental protection completion acceptance for the modification and expansion project of Ha'erbin Shuangqi phase I because Longda Elderly Apartments(龍達老年公寓)located within the restricted area has not been relocated; (2) according to the requirement of the meeting held by Ha'erbin Municipal Government in November 2015, Xiangfang District Government shall complete the relocation of Longda Elderly Apartments (龍達老年公寓) prior to the end of December 2015; (3) therefore, Environmental Protection Bureau of Ha'erbin requested Ha'erbin Shuangqi to promptly communicate with Xiangfang District Government to timely meet the environmental protection completion acceptance condition while implementing the requirement of the meeting and apply to the relevant department for environmental protection completion acceptance. Environmental Protection Bureau of Ha'erbin will assist in the relevant coordination works.

At the moment, Xiangfang District Government has made a relocation plan for Longda Elderly Apartments (龍達老年公寓) and is preparing for relocation of the same. Ha'erbin Shuangqi plans to engage Heilongjiang Fubang Environmental Monitoring Co., Ltd. (黑龍江富邦環境監測有限公司) to carry out environmental monitoring for the modification project of Ha'erbin Shuangqi. Ha'erbin Shuangqi is currently preparing for the application for environmental protection completion acceptance.

As advised by the PRC Legal Adviser, (1) the delay of Ha'erbin Shuangqi's environmental protection completion acceptance is because of the delay in the relocation of Longda Elderly Apartments (龍達老年公寓) that local government is responsible for; (2) pursuant to the concession agreement, the Ha'erbin Shuangqi Project is exclusive, and the waste incineration project involves basic livelihood and public interest, accordingly if the facilities suspend operation, public interest may be impacted; (3) the Environmental Protection Bureau of Ha'erbin is aware that Ha'erbin Shuangqi has put the household waste modification project of the household waste incineration power plant into operation and use while the environmental protection completion acceptance has not yet been obtained. Having issued Decision of Illegal Action Rectification Order, instead of imposing further administrative sanctions, the Environmental Protection Bureau of Ha'erbin requested Ha'erbin Shuangqi to relocate Longda Elderly Apartments (龍達老年公寓) with Xiangfang District Government as soon as possible to meet the requirements of environmental protection completion acceptance. Meanwhile, as Ha'erbin Shuangqi is actively carrying out the aforesaid works; the likelihood of Ha'erbin Shuangqi to be ordered by the Environmental Protection Bureau of Ha'erbin to cease operation of the household waste modification project or be imposed other administrative sanctions is low.

Impact of above past non-compliance incidents on the Target Group

As advised by the PRC Legal Adviser, the above non-compliance incidents and the corresponding failure to obtain certain permits, licenses and approvals from various government authorities may result in (i) potential fines for the Target Group, including the maximum possible aggregate amount of approximately RMB2,300,000 in connection with the failure to obtain the Pollutant Discharge License or to complete environmental protection completion acceptance and a maximum possible amount equivalent to five times the amount of illicit gains made from operation without the Electric Power Business Permit as well as confiscation of the amount of illicit gains made; (ii) other administrative sanctions including an order of cessation of infringing acts; and (iii) potential criminal liability (in relation to the failure to obtain the Electric Power Business Permit only). However, for reasons set out above, the risk of the relevant government authorities imposing such fines, other administrative sanctions and criminal liability that may hinder the Target Group's operation is very low. Based on the advice of the PRC Legal Adviser as referred to in pages I-42 to I-44, I-46 to I-48 and I-50 in this appendix, the Directors are of that view that the risk of an order of cessation or suspension of operations being imposed on any of the Target Companies as a result of past non-compliance incidents is low. Taking into account the maximum possible penalty of RMB2,300,000, the amounts of assets, revenue and profits potentially impacted by the non-compliance incidents (save for the amount potentially impacted by the failure to obtain the Electric Power Business Permit which, as advised by the PRC Legal Adviser, cannot be estimated) are estimated to be approximately 0.06% of the total assets of the Target Group as of 31 December 2015, and nil and 2.65% of the revenue and profits of the Target Group for the year ended 31 December 2015 respectively. Further, all damages, losses, penalties to be imposed on and cost of rectification incurred by the Target Group arising from or in connection with the above non-compliance incidents will be indemnified by BEHL pursuant to the Deed of Indemnity (as defined in the section headed "5. Relationship with BEHL – Indemnity from BEHL" in this appendix) given by BEHL in favour of the Company (for itself and as trustee for each member of the Target Group). Accordingly, the Directors are of the view that (i) as the Target Projects are in continuing operation; (ii) the PRC Legal Adviser's view that the risk of the relevant government authorities imposing such fines, other administrative sanctions and criminal liability that may hinder the Target Group's operation is very low; (iii) the extent in terms of the assets, revenue and profits impacted by the non-compliance incidents to the Target Group's total assets, revenue and profits is minimal; and (iv) BEHL will indemnify the Target Group against any potential penalties arising from or in connection with the above non-compliance incidents pursuant to the Deed of Indemnity, the above non-compliance incidents will not have a material impact on the Target Group's assets, revenue or profits.

Based on (i) the reasons for and nature of the non-compliance incidents, the occurrence of which was neither due to the dishonesty, gross negligence or recklessness of the Directors or for illegitimate purposes; (ii) advice from the PRC legal adviser, amongst others, that the likelihood of any fines, other administrative sanctions or criminal liability (in relation to the failure to obtain the Electric Power Business Permit only) being imposed on the Target Group is very low; (iii) the remedial actions and efforts taken by the Target Companies to address the non-compliance incidents; (iv) the minimal impact of the non-compliance incidents on the Target Group's assets, revenue and profits; and (v) the indemnity given by BEHL in favour of the Company (for itself and as trustee for each member of the Target Group) against, amongst others, all damages, losses, penalties to be imposed on and cost of rectification incurred by the Target Group arising from or in connection with the non-compliance incidents, the details of which are set out in the section headed "5. Relationship with BEHL – Indemnity from BEHL" in this appendix, the Directors are of the view that the non-compliance incidents, individually and in aggregate, would have no material adverse impact on the operations and financial position of the Target Group.

Having considered the above, the Directors are of the view that it is fair and reasonable and in the Company's interests to proceed with the Acquisition.

3. INDUSTRY OVERVIEW

Except as otherwise provided in this circular, the information and statistics set out in this section have been extracted from various official government publications and other publications as well as industry reports we commissioned from independent industry consultant, Frost & Sullivan. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted rendering such information false or misleading in any material respect. The information has not been independently verified by the Financial Adviser, any of the respective directors, officers, representatives, affiliates or other advisers or any other persons involved in the very substantial acquisition, and no representation is given as to its accuracy. We have engaged Frost & Sullivan to prepare the reports for use in whole or in part in this circular.

SOURCES OF INFORMATION

In order to facilitate the issue of this circular, we have commissioned Frost & Sullivan, an independent third party, to analyse the current status of selected industries in which we operate in the PRC. Founded in 1961, Frost & Sullivan conducts industry research and corporate training in various industries, including energy and power systems and environmental technologies. We agreed to pay Frost & Sullivan a fee of RMB350,000 for the preparation and use of the Frost & Sullivan Report.

In the PRC, Frost & Sullivan adopted a methodology of both primary research and secondary research, obtained knowledge, statistics, information, and industry insights on the market trends within the WTE industry. Primary research involved interviewing leading industry participants and third-party industry associations. Secondary research involved reviewing company annual reports, prospectus, official bureaus' database, independent research reports or journals, and Frost & Sullivan's proprietary database built up over the past decades. Projected data are derived from historical data analyses as well as specific industry drivers, including technology improvement, policy and regulations. In addition, Frost & Sullivan developed its forecasts based on the following assumptions:

- Chinese economy is expected to maintain steady growth in the forecast period;
- Chinese social, economic, and political environment is expected to remain stable in the forecast period;
- Key market drivers such as rapid urbanisation, scarcity of land, favourable policy support, waste treatment fee, and technology improvement are expected to boost the development of the Chinese WTE industry.

Terms and Abbreviations:

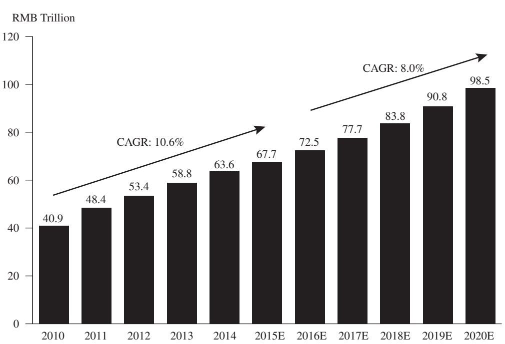
- **Compound Annual Growth Rate (CAGR):** The term for interest rate at which a given Present Value (PV) would "grow" to a given Future Value (FV) in a given amount of time. The formula for calculating CAGR is: (FV/PV)^(1/number of years) – 1
- **FYP:** Five-year plan is the regular plan proposed by China's government to design and guide the economic development during a period of five years. 2011 to 2015 is the 12th FYP period.
- **GDP:** Gross Domestic Product
- **MEP:** Ministry of Environmental Protection
- **MOHURD:** Ministry of Housing and Urban-Rural Development
- **MSW:** Municipal solid waste is a waste type consisting of everyday items that are discarded by the public.
- **NBS:** National Bureau of Statistics of China
- **NEA:** National Energy Administration
- **NRDC:** National Reform and Development Commission
- **PRC:** People Republic of China
- **SOE:** State owned enterprises
- **WTE:** Waste-to-energy is the process of generating energy in the form of electricity and/or heat from the incineration of waste.
- **WHO:** World Health Organisation

OVERVIEW OF CHINA'S ECONOMY

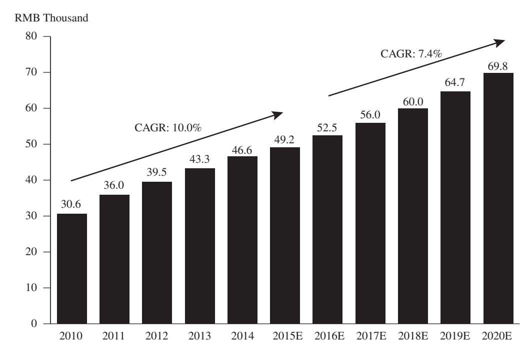
China's GDP Growth

China's nominal GDP increased from RMB 40,890 Billion in 2010 to RMB 67,670.8 Billion in 2015, representing a CAGR of 10.6%, and is expected to increase further to RMB 98,535.0 Billion in 2020, representing a CAGR of 8.0% from 2016 to 2020. China's nominal GDP per capita increased from RMB 30,567 in 2010 to RMB 49,229 in 2015, representing a CAGR of 10.0%, and is expected to increase from RMB 52,477 in 2016 to RMB 69,824 in 2020, representing a CAGR of 7.4%.

Nominal GDP, China, 2010-2020E



Nominal GDP per Capita, China, 2010-2020E



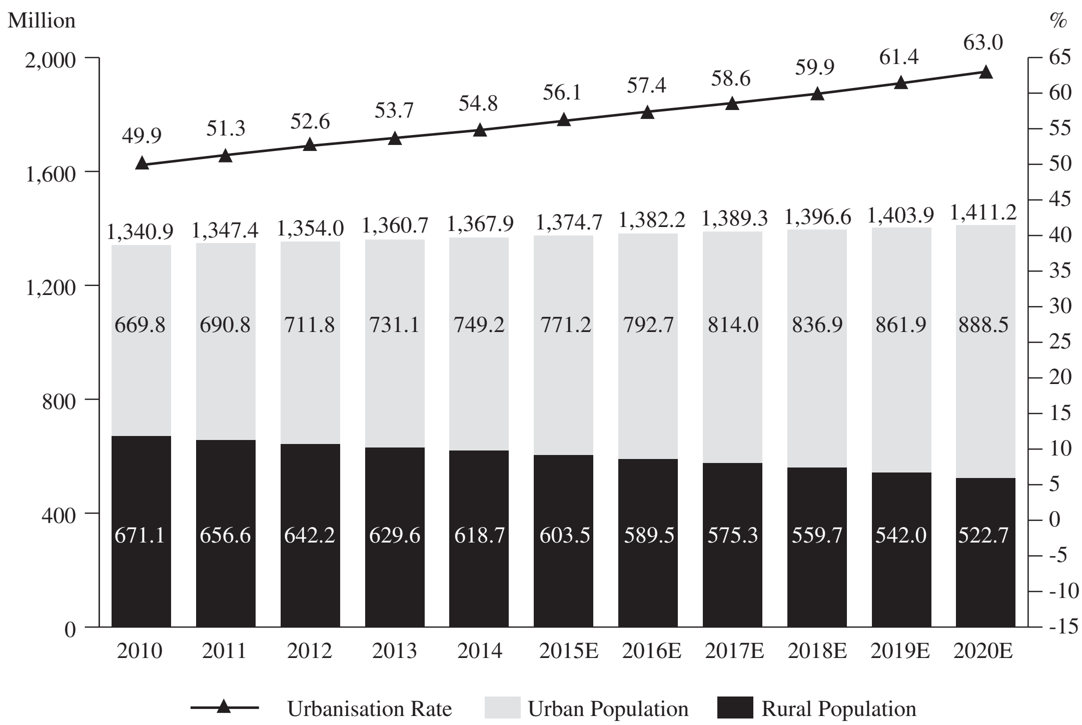
Source: IMF

China's Population and Urbanisation

Total population of China increased from 1,340.9 million in 2010 to 1,374.6 million in 2015, representing a CAGR of 0.5%, and is expected to increase further to 1,411.2 million in 2020, representing a CAGR of 0.5% from 2016 to 2020.

China is in a stage of rapid development of urbanisation. Due to the rapid economic development and the influx of migrants from rural areas to developed areas, Chinese urban population has been steadily increasing. In 2015, the urbanisation rate hit 56.1 percent. The urbanisation rate is anticipated to continue the growth in the foreseeable future, fuelling the growing demand for consumption and municipal construction.

Population of Urban and Rural, China, 2010-2020E



Source: IMF, National Bureau of Statistics and Frost & Sullivan

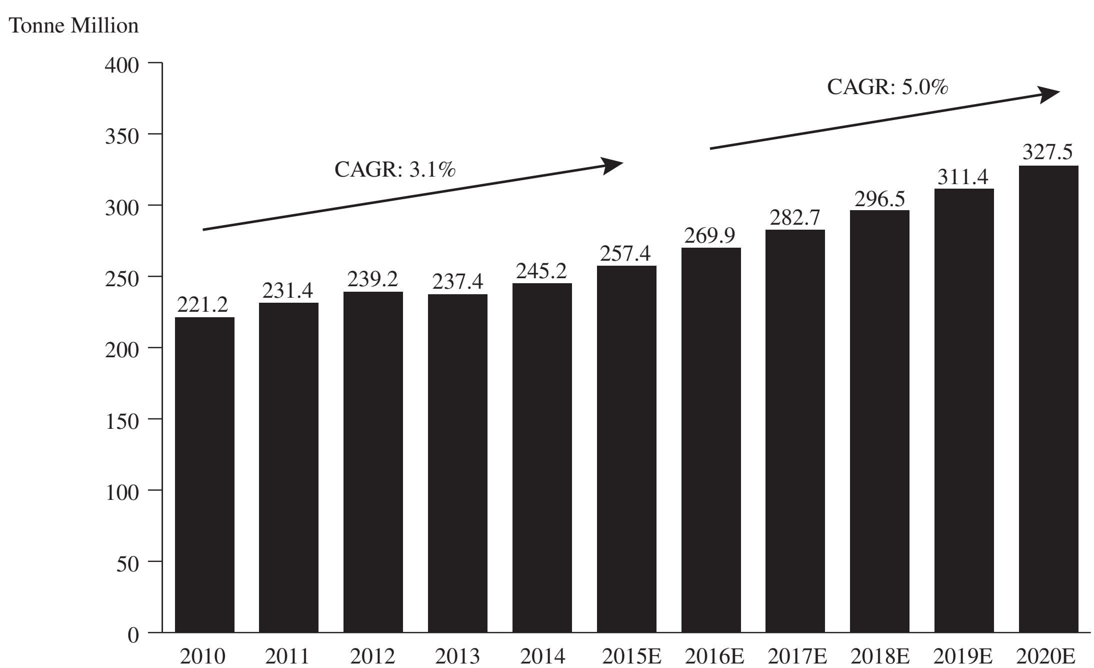
OVERVIEW OF CHINA'S MUNICIPAL SOLID WASTE TREATMENT MARKET

Output of China's Municipal Solid Waste

Municipal solid waste is solid waste generated during all urban activities including residential, commercial and construction activities.

The volume of MSW collected and transported in China has been increasing from 221.2 million tonnes in 2010 to 257.4 million tonnes in 2015 with a CAGR of 3.1%. China has seen rapid urbanisation and rise of income per capita in recent years. The improvement of life standards also led to higher generation of solid waste. The generation of MSW in China is 0.9kg per person per day in 2015, still lower than that of developed countries (around 1.0 to 2.0 kg). With ongoing urbanisation in China, the growing generation of solid waste and improvement of MSW collection and transportation system will drive the increase of volume of MSW collected and transported. The volume is expected to further increase to 327.5 million tonnes in 2020.

Volume of MSW Collected and Transported, China, 2010-2020E



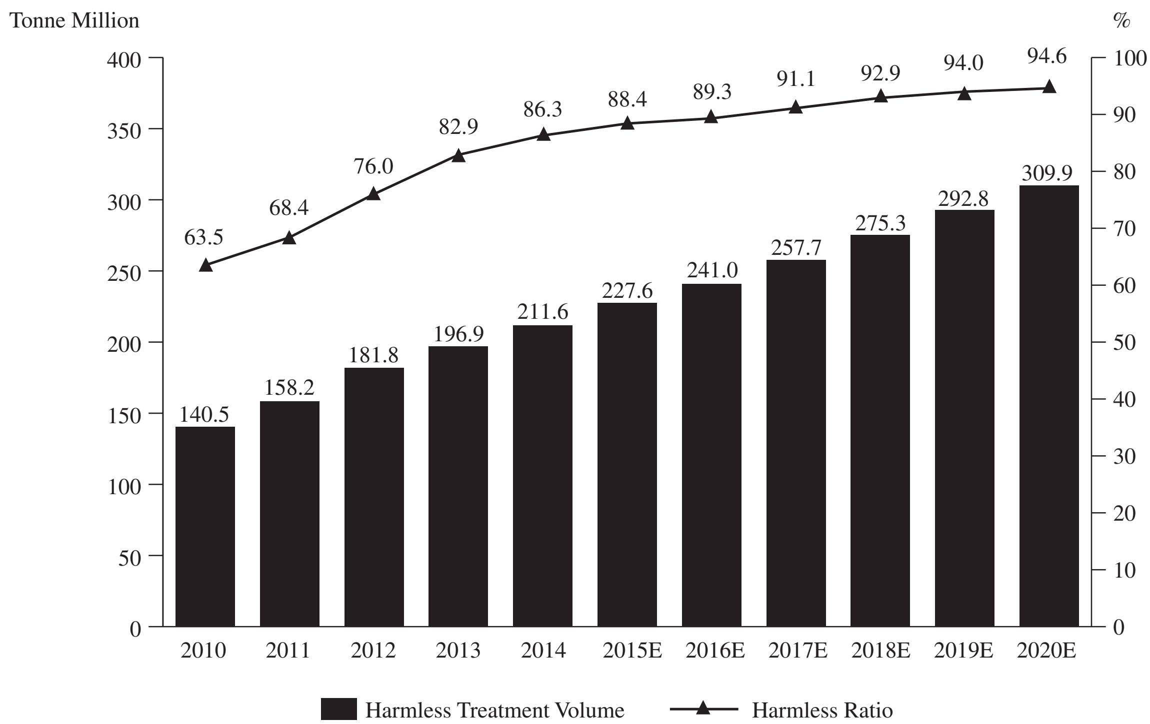
Source: Ministry of Housing and Urban-Rural Development and Frost & Sullivan

Harmless Treatment of Municipal Solid Waste in China

Harmless treatment is to eliminate the environmental damage of municipal solid waste.

The volume of MSW treatment increased from 140.5 million tonnes in 2010 to 227.6 million tonnes in 2015, registering a CAGR of 10.1%. The harmless ratio increased from 63.5% to 88.4% in the same period with significant improvement in the town level. In order to improve the living conditions for urban residents, China's central government has been encouraging the development of MSW harmless treatment, stimulating construction of MSW treatment facilities. The treatment volume is expected to grow to 309.9 million tonnes in 2020, with the harmless treatment ratio growing to 94.6%.

Volume of MSW Harmless Treatment, China, 2010-2020E



Source: Ministry of Housing and Urban-Rural Development and Frost & Sullivan

Harmless Treatment Methods in China

Landfill disposal, incineration and composting are the three major harmless treatment methods in China. Though landfill disposal is still the most widely used method for MSW treatment in China, incineration of solid waste has received great attention and developed dramatically in this century. The following chart shows the comparison of the three harmless treatment methods:

	Landfill Disposal	Incineration	Composting
Advantages	➢ Lower cost ➢ Mature technology ➢ Facilities are properly sited with necessary controls ➢ Suitable for wide range of waste streams	➢ Reduce waste volume by 80-90% ➢ Energy from combustion of MSW can be used for power generation or heating ➢ Eliminate disease agents and pathogens and reduce toxicity ➢ Save land resources and cost for transportation	➢ Reduce waste volume by 60-70% ➢ Lower cost ➢ Produce a potentially usable product, such as fertilizer ➢ Minimize contagion
Disadvantages	➢ Need for large space ➢ High transportation cost ➢ Pollution caused by leachate ➢ Risk of pathogen spread ➢ Limited storage capacity ➢ Long-lasting effect on land resources	➢ Requirement for proper treatment and disposal of slag and flying ash ➢ Production of undesirable by-products, mainly dioxin ➢ High initial investment ➢ Limited capacity ➢ Reliance on subsidy	➢ Need for large space ➢ Need for pretreatment or sorting ➢ High cost for maintenance monitoring ➢ Possible odours/runoff ➢ Need for control of vermin and other vectors
Applicable Area	Less developed area with abundant land resource	Densely inhabited area with limited land resource	Densely inhabited area with limited land resource
End Product	➢ Biogas	➢ Electricity or Heat ➢ Construction material	➢ Biogas ➢ Fertilizer

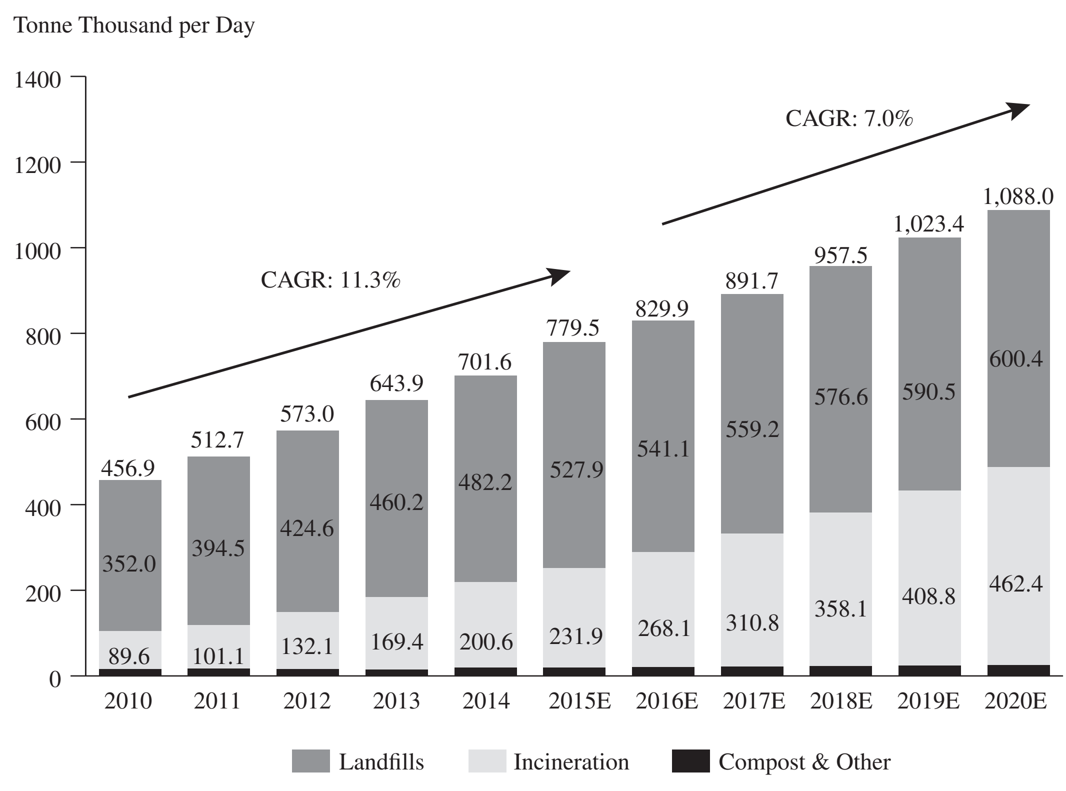
Source: Frost & Sullivan

Harmless Treatment Capacity in China

With increasing environmental awareness and ongoing investment in infrastructural construction, harmless treatment capacity has witnessed a fast growth from 456.9 thousand tonnes per day in 2010 to 779.5 thousand tonnes per day in 2015. The treatment capacity is expected to grow to 1,088.0 thousand tonnes per day in 2020, with a CAGR of 7.0% from 2016 to 2020.

In China, Landfill is most widely adopted method for MSW harmless treatment and accounted for 67.7% of total treatment capacity in 2015. The proportion of incineration has been rising stably during the past 5 years, from less than 20% in 2010 to nearly 30% in 2015. This proportion still falls short of the target of 35% in the 12th FYP and is expected to increase further during 2016 to 2020. The treatment capacity for incineration is expected to grow at a CAGR of 14.6% during 2016 and 2020.

MSW Harmless Treatment Capacity by Methods, China, 2010-2020E



Source: Ministry of Housing and Urban-Rural Development and Frost & Sullivan

Market Drivers of MSW Treatment Industry in China

- ***Rising Urbanisation.*** A wide gap between the demand for MSW treatment and the capacity of MSW treatment facilities is created as the generation of solid waste has outpaced the construction of treatment facilities as a result of rapid urbanisation and rising living standards. The gap will continue to exist, contributing to the development of MSW treatment market.

- ***Favourable Regulatory Environment.*** During the 12th FYP period, the central and local government has demonstrated determination and support for construction of MSW treatment facilities. In the 13th FYP, the government plans to accelerate the construction of MSW treatment facilities. With rising public awareness, the favourable regulatory environment will continue, encouraging the investment in MSW treatment industry.

- ***Improvement of MSW Collection and Transportation.*** While the collection system of MSW in China's cities is well developed, there is still large room for improvement of solid waste collection and transportation in towns and villages. Solid waste collection and transportation system is likely to extend to town and village level in the next 5 years, leading to increasing volume of solid waste to be treated. In addition, progress in separation and classification of solid waste in the collection and transportation system will improve the efficiency of solid waste treatment.

- ***Investment in Environmental Protection Industry.*** With rising public concern about environment, the energy saving and environmental protection industry has been selected as an emerging pillar industry of China's economy. As a crucial part of the environmental industry, MSW treatment industry will attract investors from public and private sector, expediting the industry growth.

Market Trends of MSW Treatment Industry in China

- ***Growing Demand for Treatment Capacity.*** Solid waste treatment industry is still in its growing stage and will attract heavy investment from both government and private capital.

- ***Increasing Proportion of Incineration Treatment.*** Incineration treatment of MSW is expected to be adopted more widely in the future attributable to its advantage in large treatment capacity and limited land usage, which is an intensifying issue as land resource is increasingly scarce. In addition, advancing level of industrialisation and improving living standards are expected to generate high quality household waste with high heat values that is more suitable for combustion.

- ***Rising Standard on Pollution Control.*** Considering its large environmental impact, MSW treatment industry attracts intensive regulatory attention. The rising standards on pollution and emission control will increase the entry barrier and force existing players to improve operational efficiency.

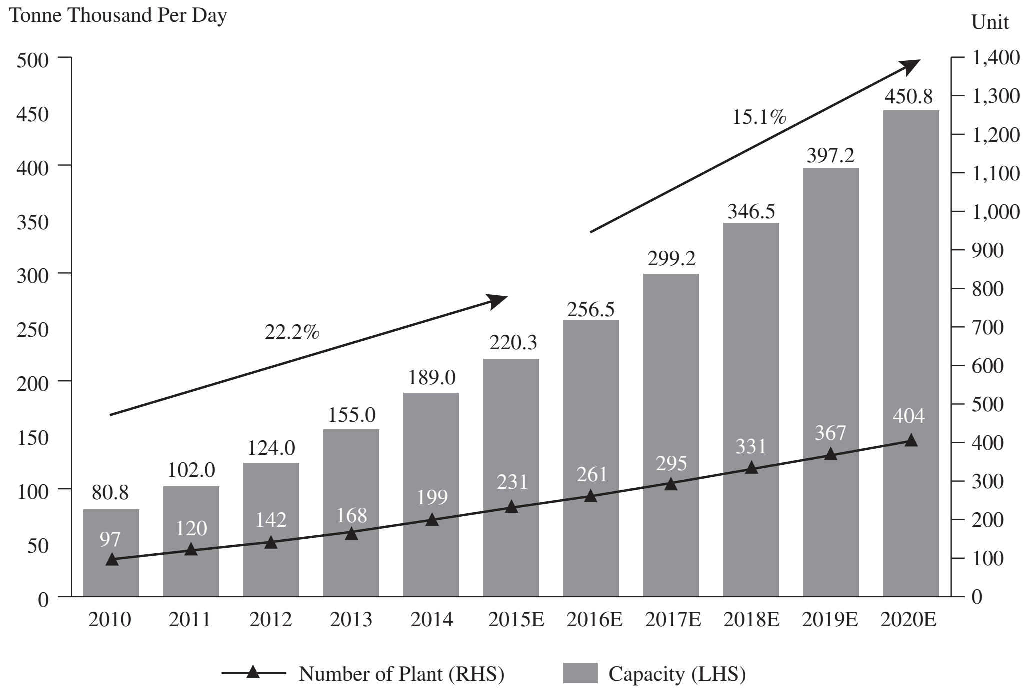
- ***Comprehensive Utilisation.*** As a model for comprehensive utilisation of waste, venous industry park has advantage in higher efficiency of waste treatment and savings of space and investment and is gradually adopted. Integrating different facilities in one industrial park can achieve comprehensive utilisation of waste by using end product or by-product of one facility as raw material for another and allocating most suitable treatment method for municipal waste which has a wide range of contents.

OVERVIEW OF CHINA'S WTE MARKET

Treatment Capacity of WTE Plants in China

WTE plants generate electricity or heat through the direct incineration of MSW. The number of WTE plants reached 231 as the end of 2015. The treatment capacity of WTE plants totaled 220.3 thousand tonnes per day at the end of 2015, increasing from 80.8 thousand tonnes per day in 2010, representing a CAGR of 22.2% from 2010 to 2015. In order to alleviate the predicament of "besieged by garbage" in many cities and achieve the target for MSW incineration capacity, favourable policies have been issued to encourage the construction of WTE plants. As the favourable regulatory environment for WTE plants is expected to last, the number and total capacity of WTE plants is predicted to continue growing at a fast pace. The treatment capacity of WTE plants will increase to 450.8 thousand tonnes per day at the end of 2020, with a CAGR of 15.1% from 2016 to 2020.

Total Treatment Capacity of WTE Plants in operation, China, 2010-2020E



Source: Frost & Sullivan

Incineration Technology in WTE Industry

There are two main furnace technologies that are used for waste incineration in China: grate furnaces and circulating fluidized bed furnaces. The choice of technology for a new plant is often a result of case specific conditions including characteristic of local solid waste and local government's preference. In general, moving grate system has been widely used in developed countries that generally have municipal solid waste with relatively high calorific value and low moisture content. On the other hand, CFB technology for solid waste incineration is developed in China and specific to the local geographic and economic conditions. For instance, compared to moving grate technologies, CFB technologies are more effective in handling municipal solid waste including food waste and sludge that normally carries relatively high organic and moisture content and low calorific value.

	Moving Grate	**Circulating Fluidized Bed**
Initial Investment	Higher	Low
Adaptability in China	Moderate	High
Operating cycle	3 months	More than 3 months
Auxiliary fuel	Diesel fuel if needed	Coal if needed
Power generation efficiency	Relatively high	High
Start-up time	Long	Short
Burning rate	Low	High
Overload capability	Limited	High
Atmospheric pollutants	Relatively high dioxin and NOx	Low dioxin and NOx

Source: Frost & Sullivan

Market Drivers of China's WTE Industry

- ***Rapid Urbanisation Process.*** Urbanisation has been a primary driver of solid waste treatment industry as per Capita waste disposal is significantly higher in urban areas than in rural areas. With the fast urbanisation process, the newly immigrated residents are expected to produce more solid waste as the increase of their disposal income, which is expected to increase the overall quantity of municipal solid waste. As an efficient method for solid waste treatment, WTE industry will benefit from the increasing volume of solid waste.

- ***Favourable Policy Support.*** Incineration method has received the government support for MSW treatment. In the 13th FYP, the central government plans to continue to increase the penetration of incineration in MSW treatment.

- ***Advance in WTE Technology***. Both the grate incinerator technology and circulated fluidized bed technology are widely used in China's WTE industry and, with the further technological improvement and maturity, WTE plants are expected to be more cost-efficient, and have better performance, less environmental impacts, and better treatment in flue gas and ash, etc. Technology innovations are continuously driving the growth of China's WTE industry in the future.

- ***Scarcity of Land.*** Land price has been steadily increasing in many regions in China, leading to growing landfill shortages. Also, the potential environmental risk of landfills on the land resource undermines its popularity. As a result, incineration treatment is gaining popularity in China as a viable harmless waste treatment solution that could considerably reduce waste volume and save land space.

Entry Barriers of China's WTE Industry

- ***Operational and Management Expertise.*** The incineration and power generation in WTE plants is a complicated process and numerous factors are under consideration for smooth operation. The success and profitability of a WTE plant is highly reliance on the management team's experience in project selection, planning and financing to construction, testing and operation, as well as assuring the highest levels of business efficiency and regulatory compliance.

- ***Capital Barrier.*** A large initial investment is required for a WTE plant. A WTE plant with a daily treatment capacity of 1,000 tonnes typically requires an initial investment of RMB300-800 million. In addition, WTE projects usually have a long payback period, ranging from 5 to 10 years. The high capital commitment requires industry participants to have substantial capital strength and financing ability.

- ***Effective Government Relationship.*** Investment and operation of WTE projects require various approvals from different department of the local government. According to "Municipal Utilities Special Permit Management Approach" regulation issued by the PRC Ministry of Construction, investment in WTE projects requires a project concession right. After obtaining the special operation concession, WTE projects must obtain approvals from local Development and Reform Commission, local environment protection authority and local electricity authority, etc. Therefore effective government relationship is crucial for WTE enterprises.

- ***Technical Barrier.*** Compare with MSW in developed countries, MSW in China generally has a high level of water and non-combustible material with low calorific value. Imported foreign technology without proper improvement is not expected to be suitable for China's municipal waste. Investment in the technologies to develop more effective or cost efficient WTE plant that is suitable for China's municipal solid waste is critical.

OVERVIEW OF CHINA'S HAZARDOUS WASTE TREATMENT MARKET

Output of Hazardous Waste in China

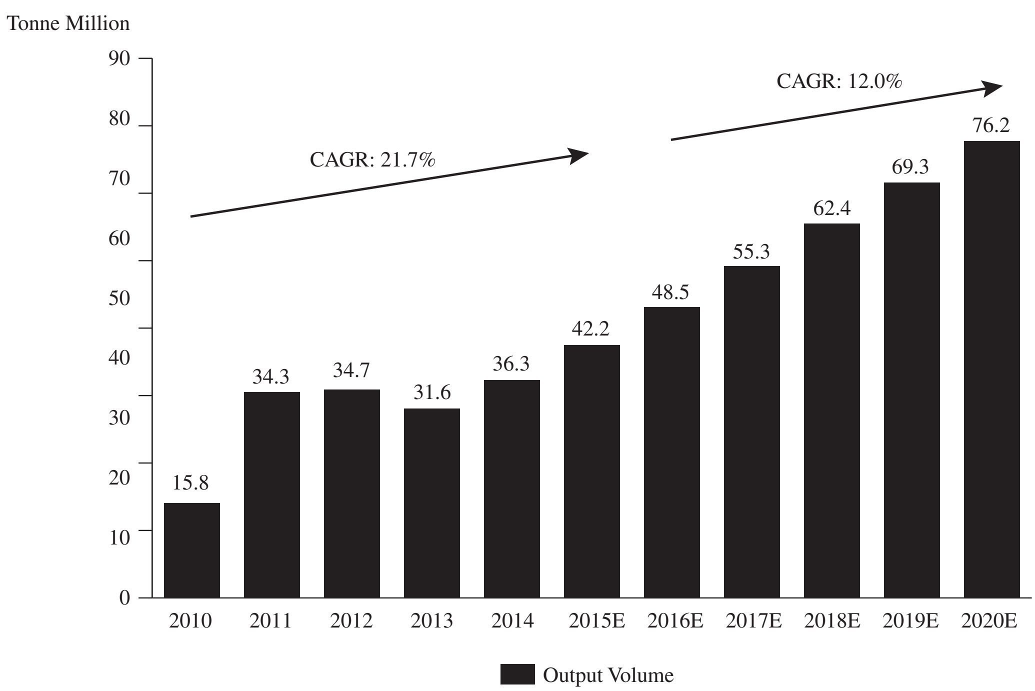
Hazardous waste is defined as 1) the wastes that have one or more hazardous characteristics like corrosivity, toxicity, ignitability, reactivity and so on, 2) those that are likely to be harmful to the environment or human body and need to be treated as hazardous wastes.

In 2011, National Bureau of Statistics adjusted the criteria of statistics on hazardous waste from 10kg or more to 1kg or more. It resulted in 34.3 million tonnes of hazardous waste output in 2011 compared to 15.8 million tonnes reported the year before. In 2015, the statistics of hazardous waste output reached 42.2 million tonnes. The number would increase to 76.2 million tonnes in 2020 from 48.5 million tonnes in 2016, representing a CAGR of 12.0% during the forecast period.

However it is believed that the actual output of hazardous waste in China is much more, because large quantity of hazardous waste could have been discharged, transferred or disposed through illegal ways.

As the environmental protection is becoming more and more urgent, more rigorous supervision and higher environmental protection standard will be enforced across the country. As a result, the output volume of hazardous waste is believed to have a two-digit growth during the forecast period.

Output of Hazardous Waste, China, 2010-2020E



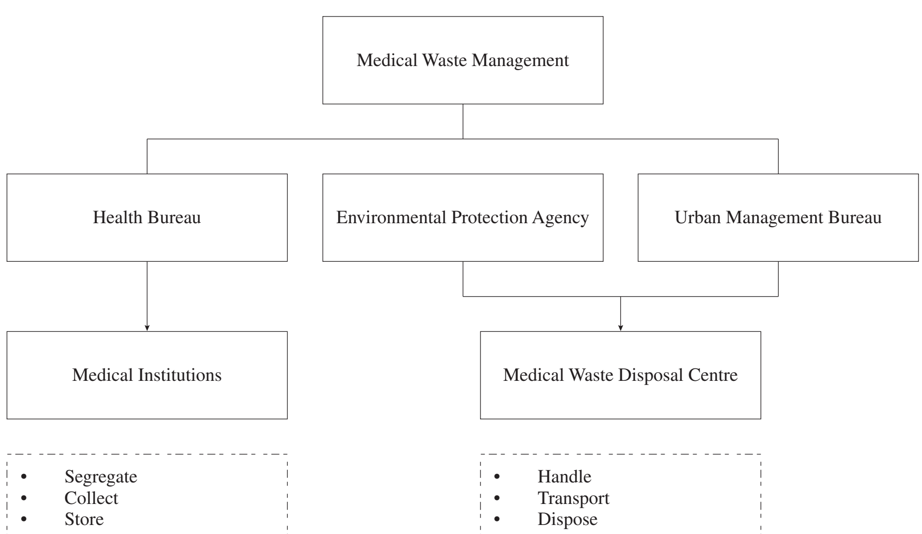
Source: Ministry of Environmental Protection, Frost & Sullivan

Definition and Classification of Medical Waste in China

By the end of 2014, there were 240 Medical Waste Disposal Centres in China. In 2014, 622.0 thousand tonnes of medical waste was created in 244 large and medium-sized cities in China and 607.0 thousand tonnes of medical waste was disposed. However, the disposal rates in small cities and rural area are quite low.

Medical waste contains potentially harmful microorganisms, which can infect hospital patients, health workers and the general public. Medical waste in some circumstances is incinerated, and dioxins, furans and other toxic air pollutants may be produced as emissions. Of the total amount of waste generated by health-care activities, about 85% is general, non-hazardous waste. The remaining 15% is considered hazardous material that may be infectious, toxic or radioactive. The management goal is realized by harmlessness, reduction and recycle of medical waste, and the management should fully cover small-scale clinics and hospitals.

Medical waste management in China requires cooperation among several departments, including the Health Bureau, the Environmental Protection Bureau and the Urban Management Bureau. The Health Bureau mainly focus on supervising and administering disease prevention in whole process of segregation, collection, transportation, storage and disposal of medical waste, and is responsible for the preparation of medical waste management of contingency plans. The Environmental Protection Bureau mainly focuses on supervising and administering prevention and control of environmental pollution. The Urban Management Bureau should supervise and administer medical wastes safely.



Source: Frost & Sullivan

Hazardous Waste Treatment Methods in China

In China, there are two major final treatment methods towards hazardous waste, known as resource utilisation and disposal. Resource utilisation aims to recycling, extracting and selling some valuable resource, such as metal, from the hazardous waste. Disposal methods are mainly used on useless waste and waste on which no other proper treatment methods can be used up to now. Its purpose is to realize harmless treatment, eliminating or reducing toxicity of hazardous waste so that it is as little harmless to the environment as possible. Landfill disposal and incineration are the two most common disposal methods.

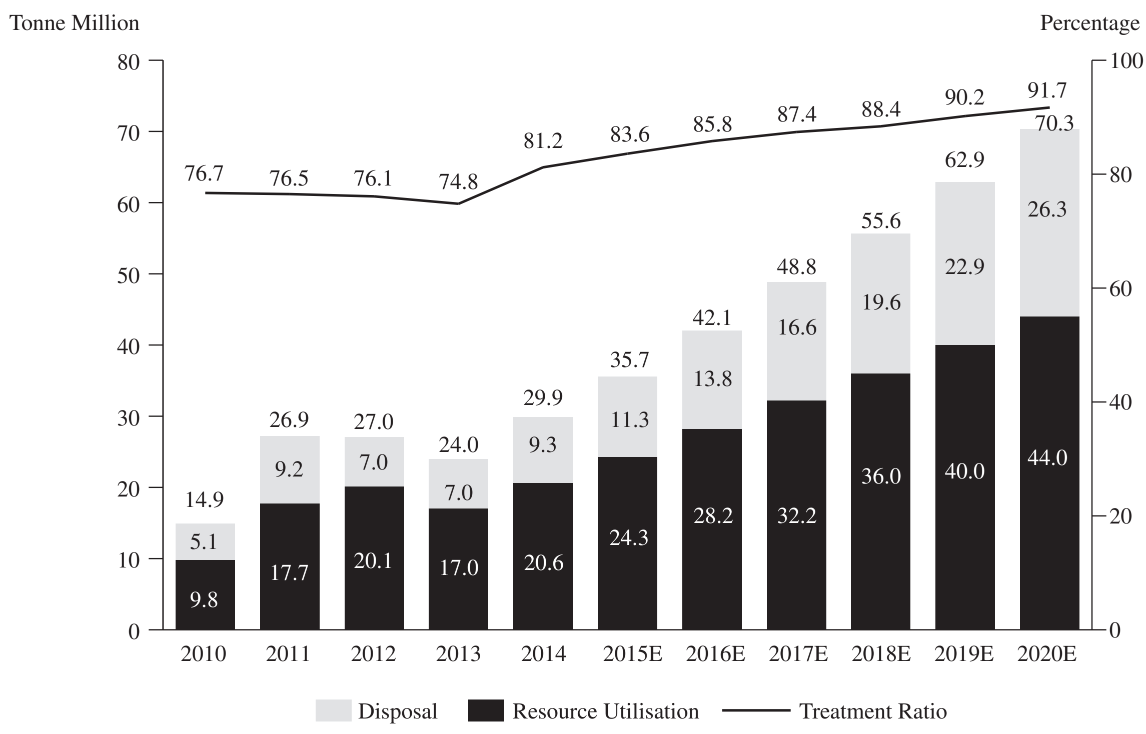
	Landfill Disposal	Incineration Disposal	Resource Utilisation
Application	Useless hazardous waste, Waste without caloric value, Inorganic Hazardous Waste	Hazardous waste with high caloric value Organic and medical Waste	Metal waste Organic solution waste Mineral oil
Advantages	➢ Lower cost ➢ Mature technology ➢ Suitable for wide range of waste types	➢ Reduce waste volume largely and efficiently ➢ Eliminate disease agents and pathogens and reduce toxicity efficiently ➢ Save land resources	➢ Raising utilisation value of hazardous waste ➢ Supply material such metal to the market
Disadvantages	➢ Need for pretreatment on waste before landfilling ➢ Need for large space ➢ Possible risk of pollution Need for long-time maintenance ➢ Long-lasting effect on land resources	➢ Production of undesirable by-products, mainly dioxin ➢ Easily opposed by residents nearby ➢ High initial investment on equipment ➢ Limited disposal capacity	➢ Need for pretreatment or sorting ➢ Need for further treatment on by-products and residual ➢ High cost for mainte-nance monitoring
Profitability	➢ Gross profit 60% or more ➢ Limited capacities causes rise in price	➢ Gross profit 60% or more ➢ Limited capacities causes rise in price	➢ Gross profit around 30% ➢ Higher standard raises cost

Source: Frost & Sullivan

Hazardous Waste Treatment Volume in China

From 2010 to 2015, disposal volume of hazardous waste in China increased from 5.1 million tonnes to 11.3 million tonnes, representing a CAGR of 17.2%. Meanwhile, Resource Utilisation volume of hazardous waste grew from 9.8 million tonnes to 24.3 million tonnes, with a CAGR of 20.0%. The treatment ratio rebounded to 83.6% in 2015, compared to 76.7% in 2010 and 74.8% in 2013. the gap between the output and treatment volume of hazardous waste is narrowing, but still very large. During the 13th FYP, the treatment volume of hazardous waste is believed to enjoy a significant increase, in order not only to meet the needs of newly generated waste, but also to treat the historical storage volume. The disposal volume is estimated to expand from 13.8 million tonnes in 2016 to 26.3 million tonnes in 2020, with a CAGR of 17.5%, and the resource utilisation volume is expected to increase from 28.2 million tonnes in 2016 to 44.0 million tonnes in 2020, showing a CAGR of 11.7%.

Hazardous Waste Treatment Volume, China, 2010-2020E



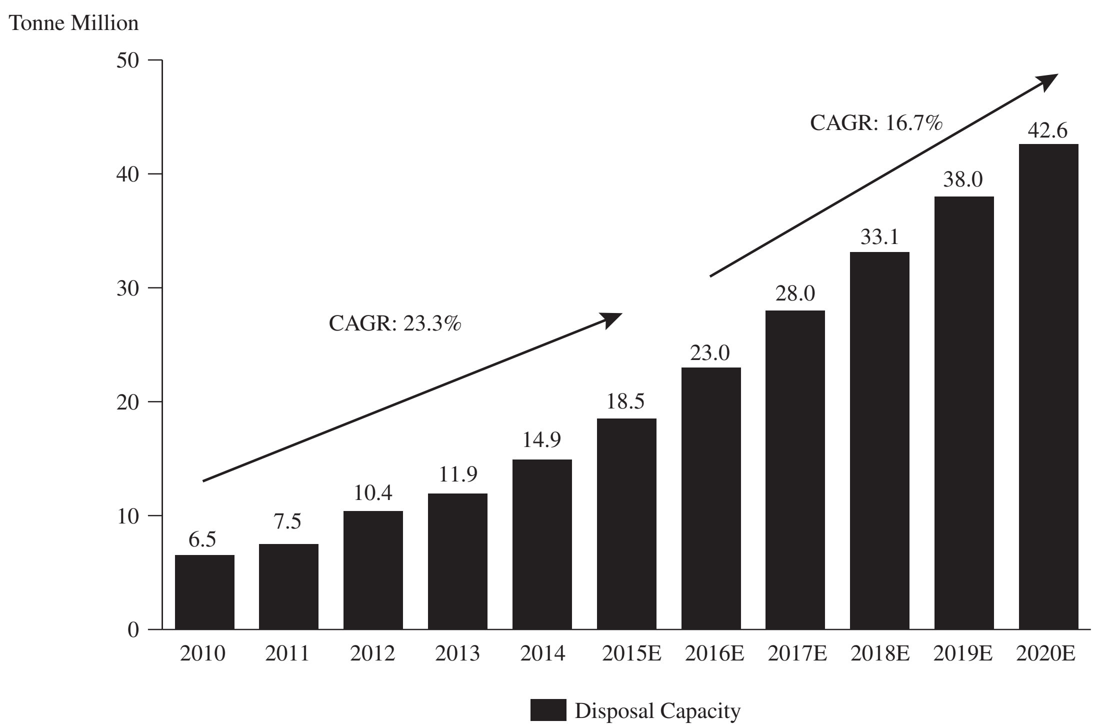
Source: Ministry of Environmental Protection, Frost & Sullivan

Hazardous Waste Treatment Capacity in China

The capacity (resource utilisation capacity not included) of centralized hazardous waste treatment facilities run by hazardous waste treatment companies in China has increased rapidly from 6.5 million tonnes per year in 2010 to 18.5 million tonnes per year in 2015, representing a CAGR of 23.3%. During the forecast period, the disposal capacity is expected to continue fast growth, from 23.0 million tonnes per year in 2016 to 42.6 million tonnes per year in 2020, with a CAGR of 16.7%.

Despite the rapid development in disposal capacity, many centralized treatment facilities run at low rate of operation due to many factors such as instability of technology, maintenance of equipment. As a result, the actual disposal volume fails to meet the increasing demand.

Disposal Capacity of Hazardous Waste of Centralized Facilities, China, 2010-2020E



Source: Ministry of Environmental Protection, Frost & Sullivan

Market Drivers of China's Hazardous Waste Treatment Industry

- ***Large Output Volume of Hazardous Waste.*** The huge output volume of hazardous waste in China is one primary driver for the hazardous waste industry.

  The increasing demand for hazardous waste treatment is not only from newly generated output volume, but also from historically storage volume. During the 13th FYP period, Chinese government will continue to increase investment on environmental protection. Hazardous waste treatment industry is believed to maintain high-speed growth.

- ***Shortage and Unbalanced Distribution of Treatment Capacity.*** The treatment capacity of hazardous waste falls short of the output volume in China. In 2015, the treatment rate of hazardous waste reached 83.6%, but the actual treatment rate is much lower considering the huge volume discharged, transferred in illegal ways.In addition, the industry has developed early in developed regions like East China and South China. But in other regions, there is shortage of treatment facilities. With the geographic transfer of manufacturing industry, there would be great demand for investment on hazardous waste in Central and West China.

- ***Favourable Policy Support.*** China is supporting the development of hazardous waste treatment industry. In 2014, the Ministry of Environmental Protection transferred authority of approving business certificates of treatment companies to provincial departments. The new "Environmental Protection Law" clarifies some legal issues, which is beneficial to the development of the industry.

- ***Demand for Technology Upgrading.*** Many centralized treatment facilities in China are troubled with low utilisation of capacity due to low operational stability. Besides, lagged technology will cause second pollution during the treatment process. As the requirement on hazardous waste treatment becomes higher, there is great demand for technology upgrading in the next few years, steering the industry to develop in a healthy and sustainable way.

Entry Barriers of China's Hazardous Waste Treatment Industry

- ***Qualification and Certificate.*** In China, companies must obtain business certificate of hazardous waste treatment to be qualified to engage in the industry. Also, additional qualification for a specific category of hazardous waste is required if a company plans to expand its business. Considering the risk and importance of hazardous waste treatment business, the regulators is more likely to give the business to the established companies that already have successful experience and expertise in the market.

- ***Capital Barrier.*** Due to high requirement on construction of special structure to prevent pollution, hazardous waste treatment facility usually requires a large initial investment. An landfill disposal plant with a total reserve capacity of 300 thousand tonnes typically requires an initial investment of approximately RMB100 million. The construction cycle of a hazardous waste treatment facility is very long, ranging from 3 to 5 years. High initial investment requires industry participants to have substantial capital strength and financing ability.

- ***Government Relationship.*** In China, business certificate for hazardous waste treatment is approved by the local government. Also, hazardous waste treatment project is usually exclusively granted in a given region by the local government in consideration of efficient regulation. Effective communication and stable relationship with the local government is crucial to gain the trust. Considering the great environmental influence of hazardous waste treatment, the local government prefers keeping long-term relationship with established enterprises.

- ***Technical Barrier.*** In China, many hazardous waste treatment facilities only utilise part of their treatment capacity mainly due to lack of advanced technology and the instability of equipment. In addition, poor quality equipment and process are likely to create secondary pollution. As a result, lacking advanced technology, new entrants are less likely to be competitive in this market.

4. DIRECTORS AND SENIOR MANAGEMENT

There will not be any change to the composition of the Board or the senior management of the Group following Completion. Set out below are details of the experience of the core senior management and operational managers of the Target Group.

Core Senior Management of the Target Group

Mr. E Meng, aged 57, role in the Target Group is to manage and provide leadership for the Target Group, to ensure that it works effectively and performs its responsibilities, and to lead the Target Group in setting its overall direction, policies, strategies, agendas and priorities.

He is also the chairman of the Company and also serves as the vice general manager and the chief financial officer of BEGCL, an executive director and the executive vice president of BEHL, and the vice chairman and an executive director of Beijing Enterprises Water Group Limited ("**BE Water Group**", stock code: 371). Mr. E also served as an independent non-executive director of New Silkroad Culturaltainment Limited (stock code: 472, previously named as JLF Investment Company Limited and MACRO-LINK International Holdings Limited) from September 2004 to August 2015. In 2001, Mr. E joined the Group.

In November 1997, Mr. E joined BEHL to serve as assistant president. In February 2003 and June 2005, Mr. E was promoted as the vice president of BEHL, then assumed the position of executive director & vice president of BEHL, respectively. In September 2008, Mr. E was re-designated as executive director and executive vice president of BEHL.

Mr. KE Jian, aged 47, role in the Target Group is to develop strategic objectives, including setting the Target Group's agenda and priorities, implementing such objectives, communicating the strategic objectives to staff at all levels and ensuring that these objectives are achieved in practice and to facilitate the Target group's effective functioning.

He is also the vice chairman and the chief executive officer of the Company and also serves as a vice president of BEHL, an executive director of BE Water Group and the chairman of Beijing Enterprises Holdings Environment Technology Co., Ltd. In August 2013, Mr. Ke joined the Group.

Mr. Ke joined the BEHL Group as a financial manager of Beijing Enterprises Investment Management Co., Ltd. (a company engaged in business management) in October 1997 and was promoted as vice general manager in March 2005. He served as assistant president of BEHL in February 2006 and was promoted to vice president of BEHL in April 2011.

As at the Latest Practicable Date, save as disclosed above and in the section headed "3. Disclosure of Interests" in Appendix VII to this circular, none of the above Directors (i) held any directorship in any listed public companies in the last three years; (ii) had any relationship with any Directors, senior management or substantial or controlling shareholders of the Company, or (iii) had any interest in the Shares within the meaning of Part XV of SFO.

Operational managers

At the operational level, the Target Group has been operated by different project teams stationed at the relevant Target Project. Details of the operational management team are as follows:

	Name of Target Project	Members of operation management team	Relevant qualification(s)
1.	Gaoantun WTE Project	General Manager: 王炳勝 (Wang Bingsheng)#	• Qualified senior engineer • Specialised in electricity
		Senior Consultant: 劉申伯 (Liu Shenbo)#	• Qualified senior engineer • Specialised in nuclear waste management
2.	Zhangjiagang WTE Project	General Manager: 陳剛 (Chen Gang)#	• Qualified engineer • Specialised in enterprise management
		Vice- General Manager: 唐自強 (Tang Ziqiang)#	• Qualified engineer • Specilised in power plant thermal energy and powering engineering (電廠熱能動力工程)

	Name of Target Project	Members of operation management team	Relevant qualification(s)
3.	Ha'erbin Shuangqi Project	General Manager: 任世成 (Ren Shicheng)#	• Qualified senior engineer • Specalised in thermo-kinetic engineering (熱能動力工程)
4.	Beikong Shuyang Project	Executive General Manager: 朱宏理 (Zhu Hongli)#	• Qualified senior engineer • Specialised in electrical engineering
5.	Beikong Wenchang Project	General Manager: 姜占林 (Jiang Zhanlin)	• Qualified assistant engineer • Specialised in engineering
		Chief Financial Officer 史小偉 (Shi Xiaowei)#	• Professional accountant
6.	Hunan Hengxing Project	General Manager: 滕緯國 (Teng Weiguo)	• Qualified product safety management officer • Qualified engineer • Specialised in mechanics
		Chief Financial Officer 侯建彬 (Hou Jianbin)#	• Certified internal auditor • Qualified real estate appraiser • Registered accountant

Joined the relevant Target Project as a member of operation management team as from January 2013.

It is the intention of the Company to retain all existing technical employees, including the aforesaid members of Target Projects, upon the Completion.

5. RELATIONSHIP WITH BEHL

As at the Latest Practicable Date, BEHL is the controlling Shareholder interested in 756,120,000 Shares, representing approximately 50.396% of the total number of Shares in issue. Accordingly, BEHL is a connected person of the Company.

BEHL Group (other than the Group) is a large conglomerate engaged in a broad range of business activities including, among other things, the distribution and sale of piped natural gas; the production, distribution and sale of brewery products; and the investment holding of majority interests in Beijing Enterprises Water Group Limited (stock code: 371) which in turn is involved in water treatment business.

As informed by BEHL, as at the Latest Practicable Date, the BEHL Group owns 17 solid waste treatment projects in the PRC, of which three of them are owned by the Group, and the remaining 14 projects are owned through BEHL's subsidiaries (other than the Group). Pursuant to the Acquisition, BEHL will transfer six solid waste treatment projects (i.e. the Target Projects) to the Company, and BEHL will continue to own eight solid waste treatment projects (i.e. Retained Projects) upon Completion. So far as the Company understands, the transfer of the Retained Projects is subject to obtaining of approvals from governmental authorities, joint venture partners and/or lending banks. The Company understands from BEHL that, as at the Latest Practicable Date, BEHL has not yet obtained the requisite third party approvals for the transfer of the Retained Projects. Accordingly, BEHL has not transferred the Retained Projects to the Company at this stage. The Company understands that BEHL intends to transfer the Retained Projects to the Company after all such requisite third party approvals have been obtained. Since the grant of such third party approvals is beyond BEHL or the Company's reasonable control, there is no assurance that BEHL or the Company can obtain such approvals. Therefore, the Company is unable to assure that the Retained Projects can be transferred to the Company or to accurately estimate the timetable for transfer of the Retained Projects. So far as the Company understands, BEHL expects that certain of the Retained Projects can be transferred to the Group in the fourth quarter of 2016.

Notwithstanding the fact that the Company and BEHL will both be engaged in the solid waste treatment business, the Company considers that there will not be competition between it and BEHL upon Completion in view of the following factors:

Clear geographical delineation among solid waste treatment projects

In respect of the Target Projects and the Retained Projects specialising in treatment of household waste, each of the relevant project companies has entered into a concession agreement with the relevant local governmental authority, pursuant to which the project company is granted rights to operate the project and its facilities for the treatment of solid waste. However, the waste incineration power generation plants of the Target Projects and the Retained Projects engaged in the same type of waste are in different locations, as set out below:

	Target Project – Location	Type of waste	Retained Project – Location	Type of waste
1.	Chaoyang District, Beijing	Household waste	Huairou, Beijing	Household waste
			Anjie, Beijing	Medical waste
2.	Suzhou, Jiangsu Province	Household waste	Changzhou, Jiangsu Province	Hazardous waste and medical waste
3.	Shuyang county, Jiangsu Province	Household waste		
4.	Hengyang Hunan Province	Hazardous waste and medical waste	Xianyang, Shaanxi Province	Household waste
5.	Wenchang, Hainan Province	Household waste	Siping, Jilin Province	Household waste
6.	Ha’erbin, Heilongjiang Province	Household Waste	Zhaodong, Heilongjiang Province	Household waste
			Taiyuan, Shanxi Province	Hazardous waste
			Wuhan, Hubei Province	Household waste

Under each household waste treatment concession agreement, the relevant local governmental authority is responsible for supplying local household waste to the project company. Each project company is responsible for treatment of the provided household waste for a particular service area or as designated by the relevant local governmental authority. As advised by the PRC Legal Adviser, the permitted scope and service areas specified in each concession agreement should not overlap under applicable PRC laws and regulations. In any event, each of the Company and BEHL are not aware of the existence of any overlap in terms of service area. Hence, in practice and under applicable laws and regulations, each project company enjoys exclusive rights to operate household waste treatment projects for a designated service area in accordance with the relevant concession agreement. Therefore, there is clear delineation and no overlapping of service areas between the Target Projects and the Retained Projects in respect of the supply of household waste.

To further protect the Company's interests, the Company will ensure that new concession agreements to be signed with relevant local governmental authorities will specify that the concession rights are granted on an exclusive basis, in order to ensure that the permitted scope and service area in respect of concession rights for the new solid waste treatment projects of BEHL and the Company do not overlap.

In respect of the projects specialising in treatment of hazardous waste and medical waste, being the Target Project located in Hengxing, Hunan Province and the Retained Project located in Changzhou, Jiangsu Province, the Company is advised by the PRC Legal Adviser that to transfer hazardous waste and /or medical waste from one province to another province, it is required to obtain approval from the environmental protection administrative departments of the local government of the municipality divided into district of both the place where the hazardous waste or medical waste are moved from and the place to receive such hazardous waste or medical waste. Accordingly, the Company considers the likelihood of competition among the two projects is low.

As at date hereof, there has been no cooperation or transactions between the Target Projects and the Retained Projects, and given the clear geographical delineation of the projects, the Company does not expect there to be any transactions with the BEHL Group (excluding the Group) in respect of the operations of the Target Projects. In the unlikely event that such transactions arise in the future, the Company will ensure that such transactions are conducted on an arm's length basis and in accordance with the applicable requirements under Chapter 14A of the Listing Rules.

No competition in relation to the supply of household waste and sale of electricity

In respect of the supply of household waste, due to public hygiene concerns, waste is often treated in the region where it is generated, and would not be transported to another region for treatment. In addition, under the concession arrangements, local governmental authorities are responsible for supplying local waste to the relevant project for treatment. As advised by the PRC Legal Adviser, the permitted scope and service areas specified in each concession agreement should not overlap, and so there is, in practice, an exclusivity in terms of supply of waste from local authorities. In view of the foregoing, there is no competition between the Target Projects and Retained Projects in relation to the supply of waste.

In respect of the electricity generated from each of the Target Projects and the Retained Projects (other than those projects located in Huairou, Beijing or Zhaodong, Heilongjiang which were still under construction, and the project located in Wuhan, Hubei Province whose electricity purchase agreement has expired pending review, each as at the Latest Practicable Date) that specialises in the treatment of household waste, each project company has entered into electricity purchase agreements with the relevant provincial grid company, pursuant to which the relevant provincial grid company shall purchase the power generated by it. Furthermore, it is a term under a majority of such electricity purchase agreements for the relevant provincial grid company to commit to purchase all of the electricity generated by the waste incineration power generation plants operated by the project company during the term of the agreement.

In addition, as advised by the PRC Legal Adviser, a grid company is required by PRC laws and regulations to purchase all of the electricity generated by renewable energy projects (which includes solid waste treatment projects) located within its grid coverage area. If a grid company fails to fully purchase the electricity generated by the renewable energy projects within its grid coverage area, that grid company will be required to compensate any loss suffered by the relevant renewable energy project in respect of such failure, and the relevant PRC authority will impose a rectification order to such grid company. If the grid company does not comply with the rectification order, the grid company may be imposed a penalty being less than 200% of the loss suffered by the relevant renewable energy project.

In light of the above, according to the understanding of the PRC Legal Adviser, grid companies would normally comply with the relevant laws and regulations to purchase all the electricity generated by waste-to-energy projects in order to avoid the aforesaid legal consequences. In addition, so far as the Company is aware, there has been no breach of the requirement to purchase all the electricity generated by BEHL's solid waste treatment projects under applicable PRC laws and regulations.

Therefore, even if electricity generated by the Target Projects and the Retained Projects are purchased by the same grid company, there would not be competition between the Target Projects and the Retained Projects in terms of customers.

Independent management team

As at the Latest Practicable Date, Mr. E Meng is a common director of both the Company and BEHL, and Mr. Ke Jian is an executive director of the Company and a vice president of BEHL. Other than Mr. E Meng and Mr. Ke Jian, the Company and BEHL have no other common directors or senior management members.

Both of Mr. E Meng and Mr. Ke Jian are responsible for overseeing and monitoring the operation of solid waste projects by both the Group and the BEHL Group. Such arrangements are in place to allow the transfer of BEHL Group's experiences in environmental protection industry into the strategic planning and daily operations of the Group and help facilitate the deployment of internal resources within BEHL. Notwithstanding the above arrangements, the Company considers that each of the Target Projects and the Retained Projects are capable of operating independently as each of the project facilities are managed and operated by substantially independent and separate project teams.

The Company would also draw readers attention to the fact that BEHL Group is a large conglomerate engaged in a broad range of business activities including, among other things, the distribution and sale of piped natural gas; the production, distribution and sale of brewery products; and the investment holding of a majority interest in Beijing Enterprises Water Group Limited (stock code: 371) which in turn is involved in water business. The holding and operation of the Retained Projects only constitutes a small part of its business and is not, and will not be, a core business of it after Completion. BEHL Group does not hold any other solid waste treatment projects in the PRC other than the Retained Projects, and its interests in solid waste treatment projects through its interests in the Company. The Group's core business since its successful transformation in 2014 has been solid waste treatment.

Deed of non-competition

Nonetheless, in order to completely avoid any competition between the Group and BEHL Group, BEHL has agreed to provide a deed of non-competition (the "**Non-Compete Deed**") in favour of the Company, which shall become effective from Completion and shall end on the earlier of:

(i) the date on which BEHL Group ceases to be interested in at least 30% of the total issued Shares; and

(ii) the date when the Shares cease to be listed on the Stock Exchange.

The material terms of the deed of non-competition are as follows:

(i) Save as specifically allowed under the deed of non-competition, no member of the BEHL Group shall (i) acquire any interest in solid waste treatment projects in the PRC, or (ii) make any investments which would compete with the business of the Group, unless with the Company's prior written approval.

(ii) BEHL Group shall transfer all its interests in the Retained Projects to the Group after obtaining all relevant third party approvals.

(a) Where BEHL Group is offered an opportunity to acquire interest in a solid waste treatment project in the PRC (the "**Investment Opportunity**"), BEHL shall promptly inform the Company in writing of all information relating to the Investment Opportunity and offer the Company the opportunity to participate in such Investment Opportunity.

(b) BEHL Group shall only be permitted to participate in such Investment Opportunity where the board of directors of the Company (based on a decision by the independent non-executive Directors) takes the view that the circumstances are not mature enough for the Group to participate in an Investment Opportunity alone (including but not limited to, the Company lacking the requisite industry qualifications, experience and size, and/or capital requirements), but after considering factors such as the market conditions, strategic needs and/or the competition environment, the Company decides:

(1) to participate in such Investment Opportunity jointly with BEHL Group; or

(2) to decline to participate in such Investment Opportunity and agree to BEHL Group's participation in the Investment Opportunity alone.

(c) Once circumstances are mature for the Company to take up the projects underlying Investment Opportunities pursued by BEHL Group alone and upon the request from the Company, the BEHL Group shall transfer all of its interests in the relevant projects to the Group.

In order to ensure that the BEHL Group will transfer all its interests in the Retained Projects to the Group when it possesses qualifications to operate such projects, BEHL and the Company will co-establish a working group to facilitate and discuss solutions to resolve obstacles relating to such transfer. The Group has also engaged a PRC legal adviser to advise from time to time on whether the conditions for the transfer of each of the Retained Projects have been fulfilled.

It is BEHL's development strategy for the Group to be the listed platform for solid waste treatment business within the BEHL Group and to support the Group in undertaking solid waste treatment business. Therefore, BEHL shall, where practicable, transfer its solid waste treatment businesses to the Group. BEHL has undertaken that it will not acquire any interest in solid waste treatment projects, or make any investments which would compete with the business of the Group unless with the Company's prior written approval.

The following procedures have been adopted by the Company and BEHL to ensure proper operation of the Non-Compete Deed:

(i) The Company will maintain a register of all Investment Opportunities arising from the implementation of the Non-Compete Deed as part of its internal control system.

(ii) The Company will review the implementation of the Non-Compete Deed on an annual basis.

(iii) The respective audit committees of BEHL and the Company will, from time to time, review the implementation of the Non-Compete Deed (including an examination of supporting documents and such other information as such committees may consider necessary) to ascertain that the terms of the Non-Compete Deed have been complied with. Members of the audit committees of BEHL or the Company who have an interest in a transaction arising from the implementation of the Non-Compete Deed shall abstain from participating in the review and approval process in relation to that transaction.

Indemnity from BEHL

BEHL, the controlling Shareholder, has entered into a deed of indemnity dated 21 June 2016 (the "**Deed of Indemnity**") in favour of the Company (for itself and as trustee for each member of the Target Group) against all or any damages, losses, claims, fines, penalties to be imposed, charges, fees, costs, interests, expenses (including all legal costs and expenses), actions, proceedings, depletion of assets, loss of profit, loss of business, cost of rectification, costs of removal, costs of reinstatement of property and any other liability of whatever nature howsoever arising from or in connection with any litigation, arbitration and/or legal proceedings, whether of criminal or administrative or contractual or tortuous or otherwise nature, against the Company and/or any member of the Target Group relating to and/or arising from the non-compliances incidents disclosed in the sections headed "1. Risk Factors" and "2. Regulatory Overview – Past Non-compliance Incidents" in this appendix.

Exempt Financial Assistance Provided by BEHL Group

As at the Latest Practicable Date, the Target Group as borrower has entered into various loan agreements with its connected persons as lender, details of such loan arrangements (the "**Loan Arrangements**") are summarised as follows:

Borrower	Lender	Loan amount	Interest rate	Term of loan
Ha'erbin Shuangqi	北京控股集團財務有限公司 (Bejing Holdings Group Financial Co. Ltd.) ("**Beijing Finance**")	RMB480 million (equivalent to approximately HK$571.43 million)	PBOC benchmark interest rate of 5 years above minus 5% per annum	16 November 2015 to 16 November 2025
Beikong Shuyang	Beijing Finance	RMB46.72 million (equivalent to approximately HK$55.62 million)	PBOC benchmark interest rate of 5 years above minus 3% per annum	18 September 2015 to 18 September 2024
Beikong Shuyang	Beijing Finance	RMB30 million (equivalent to approximately HK$35.71 million)	PBOC benchmark interest rate of 5 years above minus 3% per annum	4 March 2015 to 4 March 2024
Beikong Shuyang	Beijing Finance	RMB80 million (equivalent to approximately HK$95.24 million)	PBOC benchmark interest rate of 5 years above minus 3% per annum	22 May 2015 to 22 May 2023

Borrower	Lender	Loan amount	Interest rate	Term of loan
Zhangjiagang WTE	Beijing Finance	RMB42 million (equivalent to approximately HK$50.00 million)	PBOC benchmark rate of 1 to 5 years (including 5 years) interest minus 6% per annum	29 April 2015 to 29 April 2019
Hunan Hengxing	Beijing Environment	RMB5 million (equivalent to approximately HK$5.95 million)	PBOC benchmark interest rate of 1 year or below	19 June 2015 to 18 June 2016
Beikong Wenchang	Beijing Environment	RMB5 million (equivalent to approximately HK$5.95 million)	no interest	28 October 2014 to 27 October 2016

Beijing Finance is a subsidiary of BEGCL. As BEGCL is the ultimate controlling Shareholder of the Company, Beijing Finance is a connected person of the Company. Beijing Finance is a limited liability company established in the PRC and a non-bank financial institution approved by China Banking Regulatory Commission. Its principal business include the conducting of financing activities such as deposit-taking, money-lending and provision of custodian services to members of BEGCL.

Beijing Environment is the immediate holding company of Hunan Hengxing, Beikong Wenchang, Ha'erbin Shuangqi and Beikong Shuyang. As such, Beijing Environment is a connected person of the Company. Beijing Environment is a limited liability company established in the PRC and a subsidiary of BEHL. Its principal business is the investment holding of operating companies of solid waste treatment projects.

As at 31 December 2015, members of the BEHL Group has also advanced RMB175,688,000 and RMB11,000,000 to GSWM and its subsidiaries (excluding Anjie) and Beikong Wenchang, respectively (an aggregate amount of RMB186,688,000, equivalent to HK$222,248,000), that are repayable on demand to members of the Target Group (the "**Relevant Advances**", and together with the Loan Arrangements, the "**Arrangements**").

Following Completion, the Arrangements are expected to continue and as the Target Group will become members of the Group, the Arrangements will constitute a connected transaction of the Company in the form of financial assistance in favour of the Group pursuant to Rule 14A.26 of the Listing Rules. However, as (i) the Directors consider that the Arrangements are provided on normal commercial terms or better; and (ii) there are no security over the Group's assets granted in respect of the Arrangements, the Arrangements are fully exempted from shareholders' approval, annual review and all disclosure requirements for connected transactions pursuant to Rule 14A.90 of the Listing Rules.

6. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis on the Target Group for the three years ended 31 December 2013, 2014 and 2015, which shall be read in conjunction with the accountants reports on each of the target companies as set out in Appendices IIIA to IIIE to this circular, respectively.

(a) Management discussion and analysis on GSWM

Business Overview

GSWM

GSWM was incorporated under the laws of the Cayman Islands on 30 September 2005 and is an investment holding company. As at the date of the Sale and Purchase Agreement, GSWM beneficially held (i) 84.90% equity interest of Gaoantun WTE; and (ii) 100% equity interest of Zhangjiagang WTE. From 2013-2015, GSWM also held Anjie, in which its main business segment is hazardous waste treatment services. GSWM has been holding Anjie on trust for BEHL since 1 January 2016.

Gaoantun WTE

Gaoantun WTE was established under the laws of the PRC on 26 May 2003 and is indirectly owned as to 84.9% by BEHL as at the Latest Practicable Date. The principal activity of Gaoantun WTE is the investment in, and operation of, the Gaoantun WTE Project located in Gaoantun district of Beijing of the PRC.

The Gaoantun WTE Project is a household waste incineration project operated on a Build-Operate-Transfer ("**BOT**") basis for a licensed period of 30 years commencing from January 2005 and ending in December 2034. It uses grate furnace technology and has household waste treatment capacity of 1,600 tonnes/day. The Gaoantun WTE Project commenced operations in April 2009.

Zhangjiagang WTE

Zhangjiagang WTE was established under the laws of the PRC on 9 November 2005 and is indirectly wholly-owned by BEHL as at the Latest Practicable Date. The principal activity of Zhangjiagang WTE is the investment in, and operation of, the Zhangjiagang WTE Project located in Zhangjiagang of Suzhou, Jiangsu Province of the PRC.

The Zhangjiagang WTE Project is a household waste incineration project operated on a Build-Own-Operate ("**BOO**") basis for an original licensed period of 30 years commencing from 2008 and ending in 2038, which was subsequently revised to 30 years commencing from 2014 and ending in 2044 under a supplemental agreement. It uses grate furnace technology and has household waste treatment capacity of 900 tonnes/day. The Zhangjingang WTE Project commenced trial operations in 2010.

Results of Operations

The following table sets forth selected items of the consolidated income statements for the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	348,226	318,775	318,574
Cost of sales	(217,024)	(187,020)	(183,261)
Gross profit	131,202	131,755	135,313
Other income and gains, net	32,435	22,613	30,986
Administrative expenses	(45,092)	(33,516)	(27,523)
Other operating expenses, net	(208)	(2,485)	(16,635)
Finance costs	(67,269)	(74,851)	(54,112)
PROFIT BEFORE TAX	51,068	43,516	68,029
Income tax expense	(15,113)	(15,702)	(18,018)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	35,955	27,814	50,011
Attributable to:			
Owner of the parent company	30,667	23,387	42,418
Non-controlling interests	5,288	4,427	7,593
	35,955	27,814	50,011

Description of Selected Items in the Consolidated Income Statement

Revenue

Waste-incineration power generation and medical waste treatment in the PRC were the main business segments of GSWM during the three years ended 31 December 2015. In 2013, 2014 and 2015, it generated on-grid power of 268,454,722 kWh, 284,095,964 kWh and 295,496,816 kWh, respectively, had treated solid waste of 996,546 tonnes, 1,011,467 tonnes and 1,065,480 tonnes, respectively, and treated hazardous waste of 15,928 tonnes, 16,431 tonnes and 16,192 tonnes, respectively.

The following table sets forth the revenue generated for each of its plants during the Track Record Period:

	Year ended 31 December					
Revenue	**2013**	**% to total revenue**	**2014**	**% to total revenue**	**2015**	**% to total revenue**
	RMB'000		*RMB'000*		*RMB'000*	
Gaoantun WTE	252,968	72.65	213,512	66.98	196,877	61.80
Zhangjiagang WTE	55,936	16.06	63,295	19.86	74,896	23.51
Anjie	39,322	11.29	41,968	13.16	46,801	14.69
	348,226	100.00	318,775	100.00	318,574	100.00

The following table sets out the breakdown of its revenue by each of its services during the Track Record Period:

	Year ended 31 December					
	2013	**% to total revenue**	**2014**	**% to total revenue**	**2015**	**% to total revenue**
	RMB'000		*RMB'000*		*RMB'000*	
Solid waste treatment services	113,126	32.49	116,152	36.44	115,224	36.17
Hazardous waste treatment services	39,322	11.29	41,969	13.16	46,802	14.69
Sale of electricity	145,934	41.91	151,473	47.52	156,548	49.14
Construction services	49,844	14.31	9,181	2.88	–	–
	348,226	100.00	318,775	100.00	318,574	100.00

Revenue from solid waste treatment services

GSWM's revenue from solid waste treatment services increased by RMB3.03 million or 2.67% from RMB113.13 million for the year ended 31 December 2013 to RMB116.15 million for the year ended 31 December 2014. The increase was mainly driven by (i) increase in garbage processing capacity of Zhangjiagang WTE in 2014; and (ii) increase in revenue generated from household waste and food scraps of Gaoantun WTE.

Its revenue from solid waste treatment services decreased by RMB0.93 million or 0.80% from RMB116.15 million for the year ended 31 December 2014 to RMB115.22 million for the year ended 31 December 2015, mainly due to the net effect of the increase in the volume of treated solid waste which was offset by the decrease in imputed increase income under service concession agreement.

Revenue from hazardous waste treatment services

GSWM's revenue from hazardous waste treatment services increased by RMB2.65 million or 6.73% from RMB39.32 million for the year ended 31 December 2013 to RMB41.97 million for the year ended 31 December 2014. The increase was mainly driven by the increase in medical waste collected.

Its revenue from hazardous waste treatment services increased by RMB4.83 million or 11.52% from RMB41.97 million for the year ended 31 December 2014 to RMB46.80 million for the year ended 31 December 2015, which was due to the significant increase in unit price of treatment service rendered. As Anjie entered into sales contracts with customers directly, it was able to adjust the price charged to each customer through business negotiation.

Revenue from sale of electricity

GSWM mainly sells the power generated from its WTE plants to the local grid company. GSWM's revenue from sale of electricity increased by RMB5.54 million or 3.80% from RMB145.93 million for the year ended 31 December 2013 to RMB151.47 million for the year ended 31 December 2014; while its revenue from Sale of electricity increased by RMB5.08 million or 3.35% from RMB151.47 million for the year ended 31 December 2014 to RMB156.55 million for the year ended 31 December 2015. The increase in revenue from sales of electricity throughout the Track Record Period was in line with the increase in electricity generated, and the efficiency of electricity generated from the waste was stable throughout the Track Record Period, Construction revenue

GSWM's construction revenue decreased by RMB40.66 million or 81.58% from RMB49.84 million for the year ended 31 December 2013 to RMB9.18 million for the year ended 31 December 2014. The decrease was mainly driven by the completion of the construction of leachate facility of Gaoantun WTE in 2014.

Its construction revenue decreased by from RMB9.18 million for the year ended 31 December 2014 to nil for the year ended 31 December 2015, mainly driven by the completion of the construction of leachate facility of Gaoantun WTE in 2014.

Cost of sales

The following table sets out the breakdown of its cost of sales by nature during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Waste treatment costs	45,693	21.05	38,996	20.85	41,583	22.69
Technical and operating services	25,927	11.95	28,273	15.12	30,102	16.42
Salaries and allowances	28,588	13.17	40,128	21.46	36,354	19.84
Repairs and maintenance	19,720	9.09	14,941	7.99	13,885	7.58
Materials consumed	14,909	6.87	12,685	6.78	13,707	7.48
Depreciation and amortisation	34,118	15.72	38,158	20.40	42,155	23.00
Others	7,696	3.55	6,402	3.42	5,475	2.99
Construction costs	40,373	18.60	7,437	3.98	–	–
	217,024	100.00	187,020	100.00	183,261	100.00

During the Track Record Period, its cost of sales primarily consisted of waste treatment costs, technical and operating services, salaries and allowances, depreciation and amortization and construction costs.

Gross profit and gross profit margin

The following table sets forth the gross profit generated for each of its plants during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gaoantun WTE	105,241	80.21	105,914	80.39	100,327	74.15
Zhangjiagang WTE	20,088	15.31	20,908	15.87	28,187	20.83
Anjie	5,873	4.48	4,933	3.74	6,799	5.02
	131,202	100.00	131,755	100.00	135,313	100.00

For each of the three years ended 31 December 2013, 2014 and 2015, its gross profit margin was 37.68%, 41.33% and 42.47%, respectively. The improvement of gross profit margin throughout the Track Record Period was mainly due to improved efficiency.

Other income and gains, net

The following table sets out the breakdown of its other income during the years/periods indicated:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	642	1,210	835
Refund of value-added tax	15,048	20,529	29,208
Write-back of other payable	2,864	862	–
Government grant	–	–	883
Others	479	12	60
	19,033	22,613	30,986
Gain, net			
Foreign exchange differences, net	13,402	–	–
	32,435	22,613	30,986

Other income and gains, net of RMB32.44 million, RMB22.61 million and RMB30.99 million in 2013, 2014 and 2015, respectively, were mainly refund of value added tax.

Administrative expenses

The following table sets out the breakdown of its administrative expenses during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries, social insurance and benefits	13,958	30.95	15,083	45.00	13,580	49.34
Miscellaneous expenses	12,716	28.20	11,448	34.16	8,092	29.40
Other tax expenses	4,142	9.19	3,871	11.55	3,208	11.66
General insurance	1,362	3.02	1,334	3.98	1,383	5.02
Depreciation and amortisation	1,295	2.87	1,168	3.48	870	3.16
Professional fees	11,619	25.77	612	1.83	390	1.42
	45,092	100.00	33,516	100.00	27,523	100.00

Its administrative expenses mainly comprise salaries, social insurance and benefits, miscellaneous expenses, other tax expenses, general insurance, depreciation and amortization and professional fees. For each of the three years ended 31 December 2013, 2014 and 2015, GSWM incurred administrative expenses of RMB45.09 million, RMB33.52 million and RMB27.52 million, respectively, representing approximately 12.95%, 10.51% and 8.64% of its total revenue, respectively.

Other operating expenses

For each of the three years ended 31 December 2013, 2014 and 2015, GSWM incurred other operating expenses of RMB0.21 million, RMB2.49 million and RMB16.64 million, respectively, representing approximately 0.06%, 0.78% and 5.22% of its total revenue, respectively.

Finance costs

The following table sets out the breakdown of its finance costs during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loans	62,772	59,981	48,966
Finance lease payables	2,931	4,280	3,365
Loan from a fellow subsidiary	–	–	1,666
Total interest expenses	65,703	64,261	53,997
Increase in discounted amounts of provision for major overhauls arising from the passage of time	66	90	115
Amortisation of ancillary costs incurred in connection with the arrangement of the bank loan	1,500	10,500	–
Total finance costs	67,269	74,851	54,112

Finance cost of RMB67.27 million, RMB74.85 million and RMB54.11 million in 2013, 2014 and 2015, respectively, were mainly interest on bank loans.

Income tax expense

The following table sets out the breakdown of its income tax expenses during the Track Record Period:

	Year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Current						
– Mainland China	3,634	24.05	5,606	35.70	12,325	68.40
Deferred	11,479	75.95	10,096	64.30	5,693	31.60
Total tax charge for the year	15,113	100.00	15,702	100.00	18,018	100.00

For each of the three years ended 31 December 2013, 2014 and 2015, GSWM incurred income tax expense of RMB15.11 million, RMB15.70 million and RMB18.02 million, respectively, indicating effective tax rate of 29.59%, 36.08% and 26.49%, respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Revenue

Its revenue decreased by RMB29.45 million or 8.46% from RMB348.23 million for the year ended 31 December 2013 to RMB318.78 million for the year ended 31 December 2014; while its revenue decreased by RMB0.20 million or 0.06% from RMB318.78 million for the year ended 31 December 2014 to RMB318.57 million for the year ended 31 December 2015. On average, the operating revenue of Gaoantun WTE accounted for 73%, 67% and 62% of the total revenue of GSWM in 2013, 2014 and 2015, respectively. The operating revenue in 2013 was higher than those of 2014 and 2015. It was mainly because RMB49.84 million and RMB9.18 million of the construction income was recognised by Gaoantun WTE in 2013 and 2014, respectively, leading to a 8.46% decrease in revenue in 2014 as compared to 2013. The technical upgrade, which can be recognised as construction income, was completed in 2014, so there was no more relevant construction income in 2015. The other three income sources Were relatively stable in 2013, 2014 and 2015.

Cost of sales

GSWM's cost of sales decreased by RMB30.00 million or 13.83% from RMB217.02 million in 2013 to RMB187.02 million in 2014, while its cost of sales decreased by RMB3.76 million or 2.01% from RMB187.02 million in 2014 to RMB183.26 million in 2015. The change in cost of sales was in line with the trend of operating revenue. The higher cost of sales in 2013 was due to the construction cost of RMB40.37 million recognised. The costs of sales in 2014 and 2015 remain steady.

Gross profit

As a result of the foregoing, GSWM recorded gross profit of RMB131.20 million, RMB131.76 million and RMB135.31 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Other income and gains, net

GSWM's other income and gains, net decreased by RMB9.82 million or 30.28% from RMB32.44 million in 2013 to RMB22.61 million in 2014, which was mainly due to the foreign exchange gain amounted to RMB13.40 million in 2013 and there was foreign exchange loss in 2014, which was recognised in "other operating expenses, net".

In contrast, its other income and gains, net increased by RMB8.37 million or 37.03% from RMB22.61 million in 2014 to RMB30.99 million in 2015, which was primarily due to the increase in the refund of VAT.

Administrative expenses

GSWM's administrative expenses decreased by RMB11.58 million or 25.67% from RMB45.09 million in 2013 to RMB33.52 million in 2014. Such decrease was mainly due to the one-off professional fee incurred in 2013, which was the consultation fee regarding the technical upgrade of Anjie.

Further, its administrative expenses decreased by RMB5.99 million or 17.88% from RMB33.52 million in 2014 to RMB27.52 million in 2015, which was due to tighter costs control and reduction of headcount.

Finance costs

GSWM's finance costs increased by RMB7.58 million or 11.27% from RMB67.27 million in 2013 to RMB74.85 million in 2014; while its finance costs decreased by RMB20.74 million or 27.71% from RMB74.85 million in 2014 to RMB54.11 million in 2015. GSWM's finance costs mainly represented interest on bank loans, in which its fluctuation was mainly in line with the bank loans balances in corresponding years.

Income tax expense

GSWM's income tax expense increased by RMB0.59 million or 3.90% from RMB15.11 million in 2013 to RMB15.70 million in 2014. Such increase was mainly attributable to the withholding tax charge on dividend income.

Its income tax expense increased by RMB2.32 million or 14.75% from RMB15.70 million in 2014 to RMB18.02 million in 2015, which was mainly due to the corporate income tax of Gaoantun WTE amounting to RMB10.76 million due to the significant increase in net profit and the expiry of tax concession in 2015.

Profit for the year

As a result of the foregoing, GSWM recorded profit for the year of RMB35.96 million, RMB27.81 million and RMB50.01 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Liquidity and Capital Resources

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

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows from operating activities	82,365	126,185	132,193
Net cash flows used in investing activities	(87,694)	(44,392)	(17,059)
Net cash flows used in financing activities	(67,488)	(29,064)	(122,071)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(72,817)	52,729	(6,937)
Cash and cash equivalents at beginning of year	188,841	116,024	168,753
CASH AND CASH EQUIVALENTS AT END OF YEAR	116,024	168,753	161,816

Operating activities

For the year ended 31 December 2015, GSWM had net cash generated from operating activities of RMB132.19 million, mainly as a result of the profit before income tax of RMB68.03 million generated in this year, which was primarily adjusted for (i) finance cost of RMB54.11 million incurred; and (ii) depreciation expenses of RMB23.80 million incurred. This was partially offset by the increase in prepayments, deposits and other receivables of RMB47.82 million as a result of increase in balance from due from fellow subsidiaries.

For the year ended 31 December 2014, GSWM had net cash generated from operating activities of RMB126.19 million, mainly as a result of the profit before income tax of RMB43.52 million generated in this year, which was primarily adjusted for (i) finance cost of RMB74.85 million incurred; and (ii) depreciation expenses of RMB22.16 million incurred; and (iii) the increase in other payables and accruals of RMB24.46 million, which mainly comprised of amount due to immediate holding company which was interest free and had no fixed term of repayment. This was partially offset by the increase in prepayments, deposits and other receivables of RMB52.54 million as a result of increase in balance from due from fellow subsidiaries.

For the year ended 31 December 2013, GSWM had net cash generated from operating activities of RMB82.37 million, mainly as a result of the profit before income tax of RMB51.07 million generated in this year, which was primarily adjusted for (i) finance cost of RMB67.27 million incurred; and (ii) the decrease in trade receivables of RMB44.18 million due to settlement of receivables from sales of electricity. This was partially offset by the increase in prepayments, deposits and other receivables of RMB107.82 million as a result of increase of balances from due from fellow subsidiaries.

Investing activities

For the year ended 31 December 2015, GSWM had net cash used in investing activities of RMB17.06 million, mainly due to (i) purchases of items of property, plant and equipment of RMB12.11 million; and (ii) increase in pledged deposits of RMB11.17 million, and was partially offset by government grant received of RMB5.38 million.

For the year ended 31 December 2014, GSWM had net cash used in investing activities of RMB44.39 million, mainly due to (i) purchases of items of property, plant and equipment of RMB31.38 million; and (ii) additions of operating concession of RMB9.18 million.

For the year ended 31 December 2013, GSWM had net cash used in investing activities of approximately RMB87.69 million, mainly due to (i) additions of operating concession of RMB49.84 million; and (ii) purchases of items of property, plant and equipment of RMB31.05 million.

Financing activities

For the year ended 31 December 2015, GSWM had net cash used in financing activities of RMB122.07 million, mainly due to (i) repayment of bank loans of RMB252.15 million; and (ii) loan interest paid of RMB51.34 million, which was partially offset by new bank loans of RMB173.15 million.

For the year ended 31 December 2014, GSWM had net cash used in financing activities of RMB29.06 million, mainly due to (i) repayment of bank loans of RMB706.28 million; and (ii) loan interest paid of RMB72.11 million, which was partially offset by new bank loans of RMB767.14 million.

For the year ended 31 December 2013, GSWM had net cash used in financing activities of RMB67.49 million, mainly due to (i) repayment of bank loans of RMB98.02 million; and (ii) loan interest paid of RMB61.32 million, which was partially offset by advance from the immediate holding company of RMB52.09 million.

Net current (liabilities)/assets

The table below sets out selected information for its current assets and current liabilities as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT ASSETS			
Prepaid land premiums	350	560	560
Inventories	5,997	7,355	7,799
Receivable under a service concession arrangement	8,751	15,170	19,441
Trade receivables	32,969	42,630	44,430
Prepayments, deposits and other receivables	238,607	292,365	333,757
Pledged deposits	21,125	26,196	37,361
Cash and bank balances	116,024	168,753	116,554
	423,823	553,029	559,902
Assets of a disposal group classified as held for sale	–	–	48,836
Total current assets	423,823	553,029	608,738

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
CURRENT LIABILITIES			
Trade payables	42,017	43,641	32,124
Other payables and accruals	495,529	508,752	514,697
Bank and other borrowings	199,338	194,142	195,885
Finance lease payables	15,124	13,209	–
Income tax payables	180	722	9,090
Other taxes payables	6,578	9,632	9,437
	758,766	770,098	761,233
Liabilities directly associated with assets classified as held for sale	–	–	35,621
Total current liabilities	758,766	770,098	796,854
NET CURRENT LIABILITIES	(334,943)	(217,069)	(188,116)

GSWM recorded net current liabilities of RMB334.94 million, RMB217.07 million and RMB188.12 million as at 31 December 2013, 2014 and 2015, respectively, which mainly reflected (i) other payables and accruals; and (ii) bank and other borrowings.

GSWM's net current liabilities decreased from RMB334.94 million as at 31 December 2013 to RMB217.07 million as at 31 December 2014 which was primarily attributable to (i) the increase in prepayments, deposits and other receivables of RMB53.76 million; and (ii) the increase in cash and bank balances of RMB52.73 million. The decrease was partially offset by the increase in other payables and accruals of RMB13.22 million.

GSWM's net current liabilities decreased from RMB217.07 million as at 31 December 2014 to RMB188.12 million as at 31 December 2015, which was primarily due to (i) the increase of prepayments, deposits and other receivables of RMB41.39 million; and (ii) the increase of assets of a disposal group classified as held for sale of RMB48.84 million. The decrease was partially offset by (i) the decrease in cash and bank balances of RMB52.20 million; and (ii) the increase of liabilities directly associated with assets classified as held for sale of RMB35.62 million.

Discussion of Certain Balance Sheet Items

Property, plant and equipment

GSWM's property, plant and equipment increased by RMB9.14 million or 2.12% from RMB431.15 million in 2013 to RMB440.29 million in 2014, which was mainly due to an increase in construction in progress amounting to RMB29.97 million and depreciation of RMB22.16 million.

In contrast, its property, plant and equipment decreased by RMB13.98 million or 3.17% from RMB440.29 million in 2014 to RMB426.31 million in 2015, which was primarily due to depreciation charged amounting to RMB23.80 million, which was partially offset by addition in construction in progress of RMB10.88 million.

Prepaid land premiums

The table below sets out an analysis of the prepaid land premiums as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January	26,983	26,783	26,433
Amortisation provided during the year	(200)	(350)	(560)
Carrying amount at 31 December	26,783	26,433	25,873
Portion classified as current assets	(350)	(560)	(560)
Non-current portion	26,433	25,873	25,313

As at December 31, 2013, 2014 and 2015, GSWM's prepaid land premiums amounted to RMB26.78 million, RMB26.43 million and RMB25.87 million. The decrease in prepaid land premiums during the Track Record Period was a result of amortisation.

Goodwill

GSWM's goodwill remained steady at RMB23.62 million as at 31 December 2013,2014 and 2015.

Operating concessions

The table below sets out selected information of the operating concessions with respect to the Target Group's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	474,274	524,118	533,299
Accumulated amortisation and impairment	(151,198)	(165,346)	(182,333)
Net carrying amount	323,076	358,772	350,966
Net carrying amount:			
At 1 January	323,076	358,772	350,966
Additions	49,844	9,181	–
Amortisation provided during the year	(14,148)	(16,987)	(17,546)
At 31 December	358,772	350,966	333,420
At 31 December:			
Cost	524,118	533,299	435,992
Accumulated amortisation and impairment	(165,346)	(182,333)	(102,572)
Net carrying amount	358,772	350,966	333,420

As at 31 December 2013 and 2014, an operating concession of RMB97.31 million in respect of Anjie, was fully impaired in prior years as the plant was suspended from normal operation in prior years. The operating concession was reclassified to assets of a disposal group classified as held for sale in 2015.

Receivable under a service concession arrangement

The table below sets out selected information of the receivable under a service concession arrangement with respect to the Target Group's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	606,764	598,013	582,843
Portion classified as current assets	(8,751)	(15,170)	(19,441)
Non-current portion	598,013	582,843	563,402

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of GSWM's solid waste treatment and power generation operation. The directors of GSWM are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. GSWM does not hold any collateral or other credit enhancements over this balance.

Inventories

Inventories represented fuels and consumables used for daily waste treatment operation and spare parts used for daily maintenances of waste treatment plant managed by GSWM.

GSWM's inventories increased by RMB1.36 million or 22.64% from RMB6.00 million as at 31 December 2013 to RMB7.36 million as at 31 December 2014, while its inventories also increased by RMB0.44 million or 6.04% from RMB7.36 million as at 31 December 2014 to RMB7.80 million as at 31 December 2015. The increase over the Track Record Period was mainly due to increase in spare parts. The spare parts were used in the maintenance and replacement, which included power cables, slag conveyor chain, conduits, valves, etc. The increase in the amount of spare parts was mainly due to the preparation of maintenance and stored up of spare parts for emergency use.

Trade receivables

GSWM's trade receivables arise from the provision of solid waste treatment services and sales of electricity, in which the credit period is generally for a period of one to three months. The following table sets forth an aged analysis of trade receivables as at the indicated balance sheet dates, based on the invoice date and net of impairment:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	30,010	32,943	37,410
4 to 6 months	1,755	4,124	4,745
7 to 12 months	623	4,257	632
Over 1 year	581	1,306	1,643
	32,969	42,630	44,430

The following table also sets forth a breakdown of trade receivables by customer:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
The local power grid company	11,128	13,732	12,243
MSW Providers (mainly local government entities)	21,841	28,898	32,187
	32,969	42,630	44,430

As at December 31, 2013, 2014 and 2015, its gross trade receivables amounted to RMB32.97 million, RMB42.63 million and RMB44.43 million. The increase in trade receivables during the Track Record Period was mainly a result of increase in balance from MSW Providers of Gaoantun WTE.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the indicated balance sheet dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	6,353	4,302	13,669
Deposits	2,838	2,821	150
Other receivables	3,636	5,664	4,471
Due from subsidiaries	–	–	–
Due from fellow subsidiaries	229,486	281,734	323,724
	242,313	294,521	342,014
Portion classified as current assets	(238,607)	(292,365)	(333,757)
Non-current portion	3,706	2,156	8,257

As at December 31, 2013, 2014 and 2015, its total prepayments, deposits and other receivables amounted to RMB242.31 million, RMB294.52 million and RMB342.01 million. The increase in total prepayments, deposits and other receivables during the Track Record Period was mainly a result of increase in balance from due from fellow subsidiaries.

Trade payables

GSWM's trade payables are non-interest-bearing and normally settled within one to six months. The following table sets forth an aged analysis of its trade payables as at the indicated balance sheet date:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	17,879	22,963	8,115
3 to 6 months	668	4,903	977
6 to 12 months	11,989	10,113	5,718
Over 1 year	11,481	5,662	17,314
	42,017	43,641	32,124

GSWM's trade payables increased by RMB1.62 million or 3.87% from RMB42.02 million as at 31 December 2013 to RMB43.64 million as at 31 December 2014, which was primarily due to an accrued construction cost of RMB1.95 million for the leachate facility in Gaoantun WTE.

In contrast, Its trade payables decreased by RMB11.52 million or 26.39% from RMB43.64 million as at 31 December 2014 to RMB32.12 million as at 31 December 2015, mainly due to settlement of regarding the purchase of spare parts by Gaoantun WTE, construction costs of leachate facility by Gaoantun WTE, the settlement of regular maintenance and inspection services on equipment and pipelines by Gaoantun WTE and settlement of construction costs for expansion phase of Zhangjiagang WTE.

Other payables and accruals

GSWM's other payables are non-interest-bearing and have an average term of three months in general. The following table sets forth a breakdown of its other payables and accruals as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	28,260	16,952	4,333
Accruals	10,830	15,936	10,952
Due to the immediate holding company	446,550	448,141	475,576
Due to fellow subsidiaries	9,889	27,723	23,836
	495,529	508,752	514,697

As at December 31, 2013, 2014 and 2015, its other payables and accruals amounted to RMB495.53 million, RMB508.75 million and RMB514.70 million. The increase in other payables and accruals during the Track Record Period was mainly a result of the increase in balance from due to immediate holding company.

Indebtedness

The table below sets out an analysis of GSWM's bank and other borrowings as at each of the balance sheet dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans, secured	747,855	809,142	694,885
Less: Unamortised ancillary costs incurred in connection with the arrangement of the bank loan	(10,500)	–	–
	737,355	809,142	694,885
Other loan from a fellow subsidiary, unsecured	–	–	42,000
Total bank and other borrowings	737,355	809,142	736,885
Analysed into:			
Bank loans repayable:			
On demand	10,000	–	–
Within one year	190,838	194,142	180,885
In the second year	59,605	82,000	80,000
In the third to fifth years, inclusive	269,045	223,000	186,000
Beyond five years	218,367	310,000	248,000
	747,855	809,142	694,885

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Other loan repayable:			
Within one year	–	–	15,000
In the second year	–	–	15,000
In the third to fifth years, inclusive	–	–	12,000
	–	–	42,000
Total bank and borrowings	747,855	809,142	736,885
Less: Unamortised ancillary costs incurred in connection with the arrangement of the bank loan	(10,500)	–	–
	737,355	809,142	736,885
Portion classified as current liabilities	(199,338)	(194,142)	(195,885)
Non-current portion	538,017	615,000	541,000

During the Track Record Period, all of its bank borrowings were denominated in Renminbi and US dollar. The RMB denominated bank loans of GSWM carried interests at a floating rate of two to five years or above lending rate from the People's Bank of China plus margin. The USD denominated bank loans of GSWM carried interests at a floating rate of three months to one year lending rate of London Interbank Offered Rates plus margin. The other loan from a fellow subsidiary of GSWM carried interest at floating rates of 94% of five years lending rate from the People's Bank of China.

Its bank and other borrowings increased from RMB737.36 million as at 31 December 2013 to RMB809.14 million as at 31 December 2014, while its bank and other borrowings decreased from RMB809.14 million as at 31 December 2014 to RMB736.89 million as at 31 December 2015, which was in line with changes in bank loans over the Track Record Period.

Capital Commitments

GSWM has no capital commitments as at 31 December 2013, 2014 and 2015.

Capital Expenditures

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	31,052	31,376	12,112
Operating concessions	49,844	9,181	–
	80,896	40,557	12,112

GSWM's capital expenditures consisted of expenditures on property, plant and equipment and expenditures on operating concession. During the Track Record Period, GSWM incurred capital expenditures of RMB80.90 million, RMB40.56 million and RMB12.11 million, respectively, for each of the three years ended 31 December 2013, 2014 and 2015, and a majority of which were related to the purchase of property, plant and equipment.

(b) Management discussion and analysis on Ha'erbin Shuangqi

Business Overview

Ha'erbin Shuangqi

Ha'erbin Shuangqi was established under the laws of the PRC on 9 July 2004 and is indirectly owned as to 80% by BEHL as at the Latest Practicable Date. The principal activity of Ha'erbin Shuangqi is the investment in, and operation of, the Ha'erbin Shuangqi Project in Ha'erbin, Heilongjiang Province of the PRC.

The Ha'erbin Shuangqi Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from April 2013 and ending in April 2043. It has household waste treatment capacity of 1,600 tonnes/day comprising 400 tonnes/day for phase I and 1,200 tonnes/day for phase II. Phase I of the Ha'erbin Shuangqi Project uses fluidised bed technology and commenced operations in May 2014, while phase II of the Ha'erbin Shuangqi Project uses grate furnace technology and is under construction, which is expected to commence trial operations in 2016.

Results of Operations

The following table sets forth selected items of the consolidated income statements for the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	268,986	257,024	193,284
Cost of sales	(216,360)	(204,520)	(155,459)
Gross profit	52,626	52,504	37,825
Other income	470	609	2,286
Administrative expenses	(1,874)	(3,707)	(3,726)
Finance costs	–	(4,381)	(7,914)
PROFIT BEFORE TAX	51,222	45,025	28,471
Income tax expense	(12,668)	(12,108)	(7,140)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	38,554	32,917	21,331

Description of Selected Items in the Consolidated Income Statement

Revenue

Waste-incineration power generation in Ha'erbin, Heilongjiang Province of the PRC was the main business segment of Ha'erbin Shuangqi. In 2013, 2014 and 2015, it generated on-grid power of 2,041,160 kWh, 21,136,520 kWh and 28,935,240 kWh, respectively, and treated solid waste of 22,906 tonnes, 80,575 tonnes and 173,310 tonnes, respectively.

The following table sets out the breakdown of its revenue by each of its services during the Track Record Period:

	Year ended 31 December					
	2013	% to total revenue	2014	% to total revenue	2015	% to total revenue
	RMB'000		*RMB'000*		*RMB'000*	
Solid waste treatment services	1,672	0.62	5,729	2.23	10,623	5.50
Sale of electricity	1,177	0.44	11,963	4.65	16,324	8.44
Construction services	266,137	98.94	239,332	93.12	166,337	86.06
	268,986	100.00	257,024	100.00	193,284	100.00

Revenue from solid waste treatment services

Ha'erbin Shuangqi's revenue from solid waste treatment services increased by RMB4.06 million or 242.64% from RMB1.67 million for the year ended 31 December 2013 to RMB5.73 million for the year ended 31 December 2014, while its revenue from solid waste treatment services increased by RMB4.89 million or 85.43% from RMB5.73 million for the year ended 31 December 2014 to RMB10.62 million for the year ended 31 December 2015 The increase was primarily due to increase in volume of solid waste treated.

Revenue from sale of electricity

Ha'erbin Shuangqi mainly sells the power generated from its WTE plants to the local grid company. Ha'erbin Shuangqi's revenue from sale of electricity increased by RMB10.79 million or 916.40% from RMB1.18 million for the year ended 31 December 2013 to RMB11.96 million for the year ended 31 December 2014, while its revenue from sale of electricity further increased by RMB4.36 million or 36.45% from RMB11.96 million for the year ended 31 December 2014 to RMB16.32 million for the year ended 31 December 2015. The increase was primarily due to increase in amount of electricity generated.

Construction revenue

Ha'erbin Shuangqi's construction revenue decreased by RMB26.81 million or 10.07% from RMB266.14 million for the year ended 31 December 2013 to RMB239.33 million for the year ended 31 December 2014. The decrease was mainly driven by the substantial construction works carried out for Phase I of the WTE plant in 2013.

Its construction revenue further decreased by RMB73.00 million or 30.50% from RMB239.33 million for the year ended 31 December 2014 to RMB166.34 million for the year ended 31 December 2015, mainly driven by the completion of Phase I of the WTE plant in 2014. The amount in 2015 was mainly attributable to the construction of Phase II of the WTE plant.

Cost of sales

The following table sets out the breakdown of its cost of sales by nature during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cost of construction services	212,920	98.41	188,148	92.00	127,472	82.00
Coal and materials consumed	2,607	1.21	8,552	4.18	12,027	7.74
Salaries and allowances	–	–	3,855	1.88	8,800	5.66
Amortisation of operating concession	–	–	2,697	1.32	4,624	2.97
Maintenance cost	220	0.10	1,047	0.51	1,578	1.02
Environmental protection expenses	46	0.02	221	0.11	439	0.28
Others	567	0.26	–	–	519	0.33
	216,360	100.00	204,520	100.00	155,459	100.00

During the Track Record Period, its cost of sales primarily consisted of cost of construction services, coal and materials consumed, salaries and allowances and amortisation of operating concession.

Gross profit and gross profit margin

For each of the three years ended 31 December 2013, 2014 and 2015, its gross profit margin was 19.56%, 20.43% and 19.57%, respectively. Its gross profit margin remains steady throughout the track record period.

Other income

The following table sets out the breakdown of its other income during the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	406	449	590
Write-off of trade and other payables	64	160	1,566
Others	–	–	130
	470	609	2,286

Other income of RMB0.47 million, RMB0.61 million and RMB2.29 million in 2013, 2014 and 2015, respectively, were mainly bank interest income in 2013 and 2014; and mainly write-off of trade and other payables in 2015.

Administrative expenses

The following table sets out the breakdown of its administrative expenses during the Track Record Period:

	Year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff salaries, allowances, social insurance and other benefits	–	–	516	13.92	751	20.16
Entertainment	233	12.44	254	6.85	171	4.59
Land use tax and surcharges	153	8.16	954	25.74	929	24.93
Depreciation	183	9.77	187	5.04	218	5.85
Travelling expenses	495	26.41	468	12.62	424	11.38
Office expenses	592	31.59	424	11.44	437	11.73
Insurance	–	–	255	6.88	269	7.22
Other	218	11.63	649	17.51	527	14.14
	1,874	100.00	3,707	100.00	3,726	100.00

Its administrative expenses comprise staff salaries, allowances, social insurance and other benefits, entertainment, land use tax and surcharges, depreciation, travelling expenses, office expenses, insurance and others. For each of the three years ended 31 December 2013, 2014 and 2015, Ha'erbin Shuangqi incurred administrative expenses of RMB1.87 million, RMB3.71 million and RMB3.73 million, respectively, representing approximately 0.70%, 1.44% and 1.93% of its total revenue, respectively.

Finance costs

The following table sets out the breakdown of its finance costs during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	–	5,826	21,734
Other loans	–	7,553	2,434
Total interest expenses	–	13,379	24,168
Increase in discounted amounts of provision for major overhauls arising from the passage of time	–	–	1
Total finance costs	–	13,379	24,169
Less: Amount capitalised in operating concession	–	(8,998)	(16,255)
	–	4,381	7,914

Finance cost of RMB4.38 million and RMB7.91 million in 2014 and 2015, respectively, were interest on loans.

Income tax expense

The following table sets out the breakdown of its income tax expenses during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred	12,668	12,108	7,140

For each of the three years ended 31 December 2013, 2014 and 2015, Ha'erbin Shuangqi incurred income tax expense of RMB12.67 million, RMB12.11 million and RMB7.14 million, respectively, indicating effective tax rate of 24.73%, 26.89% and 25.08%, respectively.

Review of Historical Results of Operation

Revenue

Its revenue decreased by RMB11.96 million or 4.45% from RMB268.99 million for the year ended 31 December 2013 to RMB257.02 million for the year ended 31 December 2014; while its revenue decreased by RMB63.74 million or 24.80% from RMB257.02 million for the year ended 31 December 2014 to RMB193.28 million for the year ended 31 December 2015. Since construction income of RMB266.14 million, RMB239.33 million and RMB166.34 million were recognised in 2013, 2014 and 2015 respectively, while incomes from the other two sources were relatively stable for the three years, the operating income of 2013 was significantly higher than those of 2014 and 2015.

Cost of sales

Ha'erbin Shuangqi's cost of sales decreased by RMB11.84 million or 5.47% from RMB216.36 million in 2013 to RMB204.52 million in 2014, while its cost of sales decreased by RMB49.06 million or 23.99% from RMB204.52 million in 2014 to RMB155.46 million in 2015. The reason for the decline of cost of sales of Ha'erbin Shuangqi was similar to the aforementioned reason for the decline of income. In addition, since the operation of factories started to get on track, economies of scale took effect with improved cost-efficiency accordingly, thus pushing down the cost of sales.

Gross profit

As a result of the foregoing, Ha'erbin Shuangqi recorded gross profit of RMB52.63 million, RMB52.50 million and RMB37.83 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Other income

Ha'erbin Shuangqi's other income increased by RMB0.14 million or 29.57% from RMB0.47 million in 2013 to RMB0.61 million in 2014, which was minimal and remain at a similar level.

Its other income further increased by RMB1.68 million or 275.37% from RMB0.61 million in 2014 to RMB2.29 million in 2015, which was primarily due to payables written off which were aged over 3 years and the management expected that the possibility of repayment is remote.

Administrative expenses

Ha'erbin Shuangqi's administrative expenses increased by RMB1.83 million or 97.81% from RMB1.87 million in 2013 to RMB3.71 million in 2014. Such increase was mainly due to (i) exemption of land use tax and surcharges granted; and (ii) higher staff cost and office expenses incurred when phase I of the WTE Plant started its commercial operation in 2014.

Further, its administrative expenses increased by RMB0.02 million or 0.51% from RMB3.71 million in 2014 to RMB3.73 million in 2015, remaining at similar level.

Finance costs

Ha'erbin Shuangqi's finance costs increased by RMB4.38 million from nil in 2013 to RMB4.38 million in 2014. Such increase was in line with the bank and other loans balances. There was no interest expenses incurred in 2013 because the loan was obtained near end of 2013.

Its finance costs increased by RMB3.53 million or 80.64% from RMB4.38 million in 2014 to RMB7.91 million in 2015, which was also in line with the bank and other loans balances.

Income tax expense

Ha'erbin Shuangqi's income tax expense decreased by RMB0.56 million or 4.42% from RMB12.67 million in 2013 to RMB12.11 million in 2014, while its income tax expense further decreased by RMB4.97 million or 41.03% from RMB12.11 million in 2014 to RMB7.14 million in 2015. Ha'erbin Shuangqi's income tax expense solely represented deferred tax arising from construction services revenue, which was in line with the amount of construction services revenue incurred in corresponding years.

Profit for the year

As a result of the foregoing, Ha'erbin Shuangqi recorded profit for the year of RMB38.55 million, RMB32.92 million and RMB21.33 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Liquidity and Capital Resources

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

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows used in operating activities	(158,019)	(106,459)	(46,624)
Net cash flows used in investing activities	(163,984)	(58,805)	(54,205)
Net cash flows used in financing activities	327,700	251,621	60,832
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,697	86,357	(39,997)
Cash and cash equivalents at beginning of year	949	6,646	93,003
CASH AND CASH EQUIVALENTS AT END OF YEAR	6,646	93,003	53,006

Operating activities

For the year ended 31 December 2015, Ha'erbin Shuangqi had net cash used in operating activities of RMB46.62 million, mainly as a result of (i) increase in receivable under a service concession arrangement of RMB33.19 million due to combined effects of additions under construction period and amortised cost using the effective interest method; and (ii) the decrease in trade payables of RMB28.61 million. This was partially offset by profit before tax generated in 2014 of RMB28.47 million.

For the year ended 31 December 2014, Ha'erbin Shuangqi had net cash used in operating activities of RMB106.46 million, mainly as a result of (i) decrease in trade payables of RMB88.79 million; and (ii) the increase in receivable under a service concession arrangement of RMB49.74 million due to combined effects of additions under construction period and amortised cost using the effective interest method. This was partially offset by profit before tax generated in 2014 of RMB45.03 million.

For the year ended 31 December 2013, Ha'erbin Shuangqi had net cash used in operating activities of RMB158.02 million, mainly as a result of (i) increase in receivable under a service concession arrangement of RMB102.26 million due to the construction of phase I of the WTE Plant. This was partially offset by profit before tax generated in 2013 of RMB51.22 million.

Investing activities

For the year ended 31 December 2015, Ha'erbin Shuangqi had net cash used in investing activities of approximately RMB54.21 million, mainly due to additions of operating concession of RMB51.98 million.

For the year ended 31 December 2014, Ha'erbin Shuangqi had net cash used in investing activities of RMB58.81 million, mainly due to additions of operating concession of RMB79.59 million. This was partially offset by government grant received of RMB30.00 million.

For the year ended 31 December 2013, Ha'erbin Shuangqi had net cash used in investing activities of approximately RMB163.98 million, mainly due to additions of operating concession of RMB163.88 million.

Financing activities

For the year ended 31 December 2015, Ha'erbin Shuangqi had net cash from financing activities of RMB60.83 million, mainly due to new other loans obtained of RMB480.00 million, which was partially offset by repayment of bank loans of RMB400.00 million.

For the year ended 31 December 2014, Ha'erbin Shuangqi had net cash from financing activities of RMB251.62 million, mainly due to new bank loans obtained of RMB310.00 million, which was partially offset by repayment of other loans of RMB100.00 million.

For the year ended 31 December 2013, Ha'erbin Shuangqi had net cash from financing activities of RMB327.70 million, mainly due to (i) capital injections of RMB197.70 million; and (ii) new other loans obtained of RMB130.00 million.

Net current assets/(liabilities)

The table below sets out selected information for its current assets and current liabilities as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT ASSETS			
Inventories	613	1,270	1,145
Receivable under a service concession arrangement	–	1,119	3,933
Trade receivables	1,310	8,043	8,576
Prepayments, deposits and other receivables	286	826	1,659
Other taxes recoverable	6,319	20,711	20,201
Pledged deposits	–	9,284	11,829
Cash and bank balances	6,646	93,003	53,006
Total current assets	15,174	134,256	100,349
CURRENT LIABILITIES			
Trade payables	17,791	38,851	88,713
Other payables and accruals	27,477	8,320	1,301
Other taxes payables	101	860	809
Other borrowings	130,000	85,000	20,000
Total current liabilities	175,369	133,031	110,823
NET CURRENT ASSETS/ (LIABILITIES)	(160,195)	1,225	(10,474)

Ha'erbin Shuangqi recorded net current liabilities of RMB160.20 million and RMB10.47 million as at 31 December 2013 and 2015, respectively, which mainly reflected (i) trade payables; and (ii) other borrowings. In the meantime, Ha'erbin Shuangqi recorded net current assets of RMB 1.23 million as at 31 December 2014, which mainly reflected cash and bank balances.

Ha'erbin Shuangqi's net current liabilities of RMB160.20 million as at 31 December 2013 emerged into net current assets of RMB1.23 million as at 31 December 2014, primarily attributable to (i) the increase in cash and bank balances of RMB86.36 million; and (ii) the decrease in other borrowings of RMB45.00 million.

Ha'erbin Shuangqi's net current assets of RMB1.23 million as at 31 December 2014 deteriorated into net current liabilities of RMB10.47 million as at 31 December 2015, which was primarily due to (i) the decrease in cash and bank balances of RMB40.00 million; and (ii) the increase in trade payables of RMB49.86 million. The decrease was partially offset by the decrease in other borrowings of RMB65.00 million.

Discussion of Certain Balance Sheet Items

Property, plant and equipment

Ha'erbin Shuangqi's property, plant and equipment increased by RMB0.19 million or 16.23% from RMB1.17 million in 2013 to RMB1.36 million in 2014, while its property, plant and equipment further increased by RMB0.07 million or 4.78% from RMB1.36 million in 2014 to RMB1.43 million in 2015. Such increase was mainly due to additions of motor vehicles in the Track Record Period.

Operating concessions

The table below sets out selected information of the operating concessions with respect to Ha'erbin Shuangqi's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	118,108	281,987	444,502
Accumulated amortisation	(26,212)	(26,212)	(28,909)
Net carrying amount	91,896	255,775	415,593
Net carrying amount:			
At 1 January	91,896	255,775	415,593
Additions	163,879	162,515	122,104
Amortisation provided during the year	–	(2,697)	(4,624)
At 31 December	255,775	415,593	533,073
At 31 December:			
Cost	281,987	444,502	566,606
Accumulated amortisation	(26,212)	(28,909)	(33,533)
Net carrying amount	255,775	415,593	533,073

Receivable under a service concession arrangement

The table below sets out selected information of the receivable under a service concession arrangement with respect to Ha'erbin Shuangqi's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	151,780	237,441	296,807
Less: Portion classified as current assets	–	(1,119)	(3,933)
Non-current portion	151,780	236,322	292,874

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of Ha'erbin Shuangqi's solid waste treatment and power generation operation. The directors of Ha'erbin Shuangqi are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. Ha'erbin Shuangqi does not hold any collateral or other credit enhancements over this balance.

Inventories

Inventories represented coal used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by Ha'erbin Shuangqi.

Ha'erbin Shuangqi's inventories increased by RMB0.66 million or 107.18% from RMB0.61 million as at 31 December 2013 to RMB1.27 million as at 31 December 2014, which was mainly due to official commencement of operation of phase I of the WTE Plant in 2014.

Yet, its inventories decreased by RMB0.13 million or 9.84% from RMB1.27 million as at 31 December 2014 to RMB1.15 million as at 31 December 2015, remaining at similar level.

Trade receivables

Ha'erbin Shuangqi's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, in which the credit period is generally for a period of one to three months. The following table sets forth an aged analysis of trade receivables as at the indicated balance sheet dates, based on the invoice date and net of impairment:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	960	5,284	2,939
4 to 6 months	345	2,372	596
7 to 12 months	–	387	4,602
Over 1 year	5	–	439
	1,310	8,043	8,576

The following table also sets forth a breakdown of trade receivables by customer:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
The local power grid company	22	4,669	8,408
MSW Providers (mainly local government entities)	1,288	3,374	168
	1,310	8,043	8,576

As at December 31, 2013, 2014 and 2015, its gross trade receivables amounted to RMB1.31 million, RMB8.04 million and RMB8.58 million. The increase in trade receivables during the Track Record Period was mainly a result of official commencement of operation of phase I of the WTE Plant in 2014.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the indicated balance sheet dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	6,142	2,275	17,342
Other receivables	70	74	547
Due from an equity holder	17,358	–	–
	23,570	2,349	17,889
Portion classified as current assets	(286)	(826)	(1,659)
Non-current portion	23,284	1,523	16,230

Ha'erbin Shuangqi's prepayments, deposits and other receivables decreased from RMB23.57 million as at 31 December 2013 to RMB2.35 million as at 31 December 2014, which was mainly due to the settlement of the balance due from equity holder.

In contrast, its prepayments, deposits and other receivables increased from RMB2.35 million as at 31 December 2014 to RMB17.89 million as at 31 December 2015, primarily attributable to the prepayment for the installation of power grid project for the WTE Plant phase II.

Trade payables

Ha'erbin Shuangqi's trade payables are non-interest-bearing and normally settled within one to six months. The following table sets forth an aged analysis of its trade payables, based on invoice date, as at the indicated balance sheet date:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 1 year	9,813	5,113	2,152
Over 1 year	7,978	5,746	6,524
	17,791	10,859	8,676
Unbilled	–	27,992	80,037
	17,791	38,851	88,713

As at December 31, 2013, 2014 and 2015, its trade payables amounted to RMB17.79 million, RMB38.85 million and RMB88.71 million. The increase in trade payables during the Track Record Period was mainly a result of payable accrued to the main contractor in 2014 and progress billing and accrued construction cost in 2015.

Other payables and accruals

Ha'erbin Shuangqi's other payables are non-interest-bearing and have an average term of three months in general. The following table sets forth a breakdown of its other payables and accruals as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	27,477	718	588
Accruals	–	49	709
Due to the immediate holding company	–	7,553	4
	27,477	8,320	1,301

As at December 31, 2013, 2014 and 2015, its other payables and accruals amounted to RMB27.48 million, RMB8.32 million and RMB1.30 million. The decrease in total other payables and accruals during the Track Record Period was mainly a result of settlement of long aged debts in 2014 and settlement of amount due to immediately holding company in 2015.

Indebtedness

The table below sets out an analysis of Ha'erbin Shuangqi's bank and other borrowings as at each of the balance sheet dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans, secured	–	310,000	–
Other loans	130,000	85,000	480,000
Total bank and other borrowings	130,000	395,000	480,000
Analysed into:			
Bank loans repayable:			
Within one year	–	–	–
In the second year	–	64,600	–
In the third to fifth years, inclusive	–	173,400	–
Beyond five years	–	72,000	–
	–	310,000	–
Other loans repayable:			
On demand	–	30,000	–
Within one year	130,000	55,000	20,000
In the second year	–	–	20,000
In the third to fifth years, inclusive	–	–	150,000
Beyond five years	–	–	290,000
	130,000	85,000	480,000
Total bank and borrowings	130,000	395,000	480,000
Less: Portion classified as current liabilities	(130,000)	(85,000)	(20,000)
Non-current portion	–	310,000	460,000

During the Track Record Period, all of its bank and other borrowings were denominated in Renminbi. The bank loans of Ha'erbin Shuangqi as at 31 December 2014 carried an interest at a floating rate of five years or above lending rate from the People's Bank of China. The other loans as at 31 December 2013 and 2014 advanced from the immediate holding company of Ha'erbin Shuangqi carried an interest at floating rates of six months lending rate from the People's Bank of China. The other loan as at 31 December 2015 advanced from a fellow subsidiary of Ha'erbin Shuangqi carried an interest at floating rates of 95% of five years or above lending rate from the People's Bank of China.

As at December 31, 2013, 2014 and 2015, its bank and other borrowings amounted to RMB130.00 million, RMB395.00 million and RMB480.00 million. The increase in bank and other borrowings during the Track Record Period was mainly a result of new bank loans obtained in 2014 and new other loans obtained in 2015.

Capital Commitments

The table below sets out an analysis of Ha'erbin Shuangqi's capital commitments as at each of the balance sheet dates indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	369,765	180,688	51,625

As at December 31, 2013, 2014 and 2015, its capital commitments amounted to RMB369.77 million, RMB180.69 million and RMB51.63 million. The increase in capital commitments during the Track Record Period was mainly a result of the construction progress for Phase I and II of the WTE plant.

Capital Expenditures

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	501	380	306
Operating concessions	163,879	162,515	122,104
Other intangible assets	10	–	–
	164,390	162,895	122,410

Ha'erbin Shuangqi's capital expenditures mainly consisted of expenditures on property, plant and equipment and expenditures on operating concession. During the Track Record Period, Ha'erbin Shuangqi incurred capital expenditures of RMB164.39 million, RMB162.90 million and RMB122.41 million, respectively, for each of the three years ended 31 December 2013, 2014 and 2015, and a majority of which were related to the operating concessions.

(c) Management discussion and analysis on Beikong Shuyang

Business Overview

Beikong Shuyang

Beikong Shuyang was established under the laws of the PRC on 11 April 2012 and is indirectly wholly-owned by BEHL as at the Latest Practicable Date. The principal activity of Beikong Shuyang is the investment in, and operation of, the Beikong Shuyang Project in Shuyang county, Jiangsu Province of the PRC.

The Beikong Shuyang Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from March 2015 and ending in March 2045. It uses grate furnace technology and has household waste treatment capacity of 600 tonnes/day. The Beikong Shuyang Project commenced trial operations in January 2015.

Results of Operations

The following table sets forth selected items of the consolidated income statements for the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	31,523	279,579	32,895
Cost of sales	(25,703)	(227,047)	(19,335)
Gross profit	5,820	52,532	13,560
Other income	185	555	774
Administrative expenses	(809)	(1,046)	(2,043)
Finance costs	–	(630)	(5,525)
PROFIT BEFORE TAX	5,196	51,411	6,766
Income tax expense	(1,299)	(12,749)	(879)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,897	38,662	5,887

Description of Selected Items in the Consolidated Income Statement

Revenue

Waste-incineration power generation in Shuyang county, Jiangsu Province of the PRC was the main business segment of Beikong Shuyang. In 2015, it generated on-grid power of 35,577,760 kWh, respectively, and treated solid waste of 214,374 tonnes.

The following table sets out the breakdown of its revenue by each of its services during the Track Record Period:

	Year ended 31 December					
	2013	% to total revenue	2014	% to total revenue	2015	% to total revenue
	RMB'000		*RMB'000*		*RMB'000*	
Solid waste treatment services	–	–	415	0.15	9,790	29.76
Sale of electricity	–	–	–	–	19,765	60.09
Construction services	31,523	100.00	279,164	99.85	3,340	10.15
	31,523	100.00	279,579	100.00	32,895	100.00

Revenue from solid waste treatment services

Beikong Shuyang's revenue from solid waste treatment services increased by from nil for the year ended 31 December 2013 to RMB0.42 million for the year ended 31 December 2014. The increase was mainly driven by substantial completion of construction in 2014, creating revenue from testing and commissioning.

Its revenue from solid waste treatment services increased by RMB9.38 million or 2,259.04% from RMB0.42 million for the year ended 31 December 2014 to RMB9.79 million for the year ended 31 December 2015, which was primarily due to commencement of commercial operation in the year of 2015.

Revenue from sale of electricity

Beikong Shuyang mainly sells the power generated from its WTE plants to the local grid company. Beikong Shuyang's revenue from sale of electricity increased from nil for the year ended 31 December 2014 to RMB19.77 million for the year ended 31 December 2015. The increase was mainly driven by commencement of commercial operation in the year of 2015.

Construction revenue

Beikong Shuyang's construction revenue increased by RMB247.64 million or 785.59% from RMB31.52 million for the year ended 31 December 2013 to RMB279.16 million for the year ended 31 December 2014. The increase was mainly driven by construction of the WTE Plant was commenced from mid-2013.

However, its construction revenue decreased significantly by RMB275.82 million or 98.80% from RMB279.16 million for the year ended 31 December 2014 to RMB3.34 million for the year ended 31 December 2015, mainly driven by construction of WTE Plant was completed and started its commercial operation since early 2015.

Cost of sales

The following table sets out the breakdown of its cost of sales by nature during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cost of construction services	25,703	100.00	227,047	100.00	1,320	6.83
Cost of raw materials	–	–	–	–	2,462	12.73
Amortisation of operating concession	–	–	–	–	4,915	25.42
Environmental protection expenses	–	–	–	–	4,362	22.56
Repair and maintenance cost	–	–	–	–	3,084	15.95
Salaries, allowances and social insurance	–	–	–	–	2,825	14.61
Others	–	–	–	–	367	1.90
	25,703	100.00	227,047	100.00	19,335	100.00

During the Track Record Period, its cost of sales primarily consisted of cost of construction services, amortisation of operating concession and environmental protection expenses.

Gross profit and gross profit margin

For each of the three years ended 31 December 2013, 2014 and 2015, its gross profit margin was 18.46%, 18.79% and 41.22%, respectively. Its gross profit margin remains steady from 2013 to 2014. Yet, its gross profit margin increase significantly from 18.79% in 2014 to 41.22% in 2015, mainly attributable to the solid waste treatment and electricity generation business with higher gross profit margin than construction services gross profit margin in 2014.

Other income

The following table sets out the breakdown of its other income during the years/ periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	185	555	187
Sale of scraps	–	–	387
Others	–	–	200
	185	555	774

Other income of RMB0.19 million, RMB0.56 million and RMB0.77 million in 2013, 2014 and 2015, respectively, were bank interest income in 2013 and 2014; and mainly sale of scraps in 2015.

Administrative expenses

The following table sets out the breakdown of its administrative expenses during the Track Record Period:

	Year ended 31 December					
	2013		**2014**		**2015**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff salaries, allowances and other benefits	–	–	–	–	359	17.57
Social insurance	–	–	–	–	217	10.62
Travelling expenses	217	26.82	299	28.59	315	15.42
Entertainment expenses	263	32.51	228	21.80	240	11.75
Office expenses	133	16.44	344	32.89	425	20.80
Depreciation	72	8.90	113	10.80	122	5.97
Others	124	15.33	62	5.93	365	17.87
	809	100.00	1,046	100.00	2,043	100.00

Its administrative expenses comprise staff salaries, allowances and other benefits, social insurance, travelling expenses, entertainment expenses, office expenses, depreciation and others. For each of the three years ended 31 December 2013, 2014 and 2015, Beikong Shuyang incurred administrative expenses of RMB0.81 million, RMB1.05 million and RMB2.04 million, respectively, representing approximately 2.57%, 0.37% and 6.21% of its total revenue, respectively.

Finance costs

The following table sets out the breakdown of its finance costs during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	–	1,712	1,779
Other loans	–	–	4,536
Total interest expenses	–	1,712	6,315
Less: Amount capitalised in operating concession	–	(1,082)	(790)
	–	630	5,525

Finance cost of RMB0.63 million and RMB5.53 million in 2014 and 2015, respectively, were interest on loans.

Income tax expense

The following table sets out the breakdown of its income tax expenses during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred	1,299	12,749	879

For each of the three years ended 31 December 2013, 2014 and 2015, Beikong Shuyang incurred income tax expense of RMB1.30 million, RMB12.75 million and RMB0.88 million, respectively, indicating effective tax rate of 25.00%, 24.80% and 12.99%, respectively.

Review of Historical Results of Operation

Revenue

Its revenue increased by RMB248.06 million or 786.90% from RMB31.52 million for the year ended 31 December 2013 to RMB279.58 million for the year ended 31 December 2014; while its revenue decreased by RMB246.68 million or 88.23% from RMB279.58 million for the year ended 31 December 2014 to RMB32.90 million for the year ended 31 December 2015. Most of the construction income was recognised by Beikong Shuyang in 2014 (2013: RMB31.52 million; 2014: RMB279.16 million; 2015: RMB3.34 million). Since the trial operation started in January 2015, income from solid waste treatment services and sale of electricity increased (approximately RMB29.14 million). In general, construction income of 2014 was significantly higher than those of 2013 and 2015, implying significantly higher revenue in 2014 than in 2013 and 2015.

Cost of sales

Beikong Shuyang's cost of sales increased by RMB201.34 million or 783.35% from RMB25.70 million in 2013 to RMB227.05 million in 2014, while its cost of sales decreased by RMB207.71 million or 91.48% from RMB227.05 million in 2014 to RMB19.34 million in 2015. The reason for the fluctuation of cost of sales of the Company was similar to the aforementioned reason for the fluctuation of income. In addition, since the operation of factories started to get on track, resulting in economies of scale and improved cost-efficiency, thus pushing down the cost of sales.

Gross profit

As a result of the foregoing, Beikong Shuyang recorded gross profit of RMB5.82 million, RMB52.53 million and RMB13.56 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Other income

Beikong Shuyang's other income increased by RMB0.37 million or 200.00% from RMB0.19 million in 2013 to RMB0.56 million in 2014, which was mainly due to increase in bank interest income.

Further, its other income increased by RMB0.22 million or 39.46% from RMB0.56 million in 2014 to RMB0.77 million in 2015, which was primarily due to increase in scrap sales.

Administrative expenses

Beikong Shuyang's administrative expenses increased by RMB0.24 million or 29.30% from RMB0.81 million in 2013 to RMB1.05 million in 2014, maintaining at a similar level.

Further, its administrative expenses increased by RMB1.00 million or 95.32% from RMB1.05 million in 2014 to RMB2.04 million in 2015, which was mainly due to higher staff cost and office expenses incurred when the WTE Plant started its commercial operation in the year of 2015.

Finance costs

Beikong Shuyang's finance costs increased from nil in 2013 to RMB0.63 million in 2014. Such increase was In line with the bank and other loans balances, while there's no interest expenses incurred in 2013 since the loan was obtained close to year end.

Its finance costs further increased by RMB4.90 million or 776.98% from RMB0.63 million in 2014 to RMB5.53 million in 2015, which was also in line with the bank and other loans balances.

Income tax expense

Beikong Shuyang's income tax expense increased by RMB11.45 million or 881.45% from RMB1.30 million in 2013 to RMB12.75 million in 2014. Such increase represented deferred tax arising from construction services revenue.

Its income tax expense decreased by RMB11.87 million or 93.11% from RMB12.75 million in 2014 to RMB0.88 million in 2015, which also represented deferred tax arising from construction services revenue.

Profit for the year

As a result of the foregoing, Beikong Shuyang recorded profit for the year of RMB3.90 million, RMB38.66 million and RMB5.89 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Liquidity and Capital Resources

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

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows used in operating activities	(34,404)	(30,992)	(32,050)
Net cash flows used in investing activities	(19,801)	(86,440)	(5,132)
Net cash flows from/(used in) financing activities	178,190	(2,233)	54,104
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	123,985	(119,665)	16,922
Cash and cash equivalents at beginning of year	321	124,306	4,641
CASH AND CASH EQUIVALENTS AT END OF YEAR	124,306	4,641	21,563

Operating activities

For the year ended 31 December 2015, Beikong Shuyang had net cash used in operating activities of RMB32.05 million, mainly as a result of (i) decrease in trade payables of RMB42.16 million due to settlement of progress billing for the construction; and (ii) the increase in trade receivables of RMB10.70 million due to commencement of commercial operation in 2015. This was partially offset by profit before tax generated in 2015 of RMB6.77 million.

For the year ended 31 December 2014, Beikong Shuyang had net cash used in operating activities of RMB30.99 million, mainly as a result of (i) the increase in receivable under a service concession arrangement of RMB58.41 million due to construction in 2014; and (ii) the decrease in trade payables of RMB33.10 million due to settlement of payables for construction of WTE plant. This was partially offset by profit before tax generated in 2014 of RMB51.41 million.

For the year ended 31 December 2013, Beikong Shuyang had net cash used in operating activities of RMB34.40 million, mainly as a result of (i) increase in prepayments, deposits and other receivables of RMB21.65 million due to prepayment for construction of WTE plant; and (ii) decrease in other payables and accruals of RMB5.99 million due to settlement of other payables to immediate holding company. This was partially offset by profit before tax generated in 2013 of RMB5.20 million.

Investing activities

For the year ended 31 December 2015, Beikong Shuyang had net cash used in investing activities of approximately RMB5.13 million, mainly due to (i) loan to a fellow subsidiary of RMB3.50 million; and (ii) additions of operating concession of RMB1.80 million.

For the year ended 31 December 2014, Beikong Shuyang had net cash used in investing activities of RMB86.44 million, mainly due to additions of operating concession of RMB94.89 million. This was partially offset by government grant received of RMB8.00 million.

For the year ended 31 December 2013, Beikong Shuyang had net cash used in investing activities of approximately RMB19.80 million, mainly due to additions of operating concession of RMB19.70 million.

Financing activities

For the year ended 31 December 2015, Beikong Shuyang had net cash from financing activities of RMB54.10 million, mainly due to new other loans obtained of RMB156.72 million, which was partially offset by repayment of bank loan of RMB72.40 million.

For the year ended 31 December 2014, Beikong Shuyang had net cash used in financing activities of RMB2.23 million, mainly due to repayment of other loans of RMB100.00 million, which was partially offset by new bank loan of RMB72.40 million.

For the year ended 31 December 2013, Beikong Shuyang had net cash from financing activities of RMB178.19 million, due to (i) new other loans obtained of RMB100.00 million; and (ii) capital injections of RMB78.19 million.

Net current (liabilities)/assets

The table below sets out selected information for its current assets and current liabilities as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT ASSETS			
Inventories	–	–	125
Receivable under a service concession arrangement	–	–	1,924
Trade receivables	–	485	11,183
Prepayments, deposits and other receivables	18,657	713	4,386
Other taxes recoverable	24	8,697	11,987
Cash and bank balances	124,306	4,641	21,563
Total current assets	142,987	14,536	51,168
CURRENT LIABILITIES			
Trade payables	–	93,842	51,681
Other payables and accruals	41	343	721
Bank and other borrowings	100,000	25,000	10,000
Total current liabilities	100,041	119,185	62,402
NET CURRENT ASSETS/ (LIABILITIES)	42,946	(104,649)	(11,234)

Beikong Shuyang recorded net current liabilities of RMB104.65 million and RMB11.23 million as at 31 December 2014 and 2015, respectively, which mainly reflected (i) trade payables; and (ii) bank and other borrowings. In the meantime, Beikong Shuyang recorded net current assets of RMB42.95 million as at 31 December 2013, which mainly reflected cash and bank balances.

Beikong Shuyang's net current assets of RMB42.95 million as at 31 December 2013 deteriorated into net current liabilities of RMB104.65 million as at 31 December 2014, primarily attributable to (i) the decrease in cash and bank balances of RMB119.67 million; and (ii) the increase in trade payables of RMB93.84 million. It was partially offset by the decrease in bank and other borrowings of RMB75.00 million.

Beikong Shuyang's net current liabilities of RMB104.65 million as at 31 December 2014 decreased to net current liabilities of RMB11.23 million as at 31 December 2015, which was primarily due to (i) the decrease in trade payables of RMB42.16 million; (ii) the increase in cash and bank balances of RMB16.92 million; and (iii) the decrease in bank and other borrowings of RMB15.00 million.

Discussion of Certain Balance Sheet Items

Property, plant and equipment

As at December 31, 2013, 2014 and 2015, its property, plant and equipment amounted to RMB0.61 million, RMB0.60 million and RMB0.50 million. The decrease in property, plant and equipment during the Track Record Period was mainly a result of depreciation charged net of additions.

Operating concessions

The table below sets out selected information of the operating concessions with respect to Beikong Shuyang's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	–	19,702	194,823
Accumulated amortisation	–	–	–
Net carrying amount	–	19,702	194,823
Net carrying amount:			
At 1 January	–	19,702	194,823
Additions	19,702	175,121	1,802
Amortisation provided during the year	–	–	(4,915)
At 31 December	19,702	194,823	191,710
At 31 December:			
Cost	19,702	194,823	196,625
Accumulated amortisation	–	–	(4,915)
Net carrying amount	19,702	194,823	191,710

Receivable under a service concession arrangement

The table below sets out selected information of the receivable under a service concession arrangement with respect to Beikong Shuyang's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	11,821	116,946	118,176
Portion classified as current assets	–	–	(1,924)
Non-current portion	11,821	116,946	116,252

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of Beikong Shuyang's solid waste treatment and power generation operation. The directors of Beikong Shuyang are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. Beikong Shuyang does not hold any collateral or other credit enhancements over this balance.

Inventories

Inventories represented spare parts used for daily maintenance of waste treatment plant managed by Beikong Shuyang.

Trade receivables

Beikong Shuyang's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, in which the credit period is generally for a period of one to three months. The following table sets forth an aged analysis of trade receivables as at the indicated balance sheet dates, based on the invoice date and net of impairment:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	485	6,709
4 to 6 months	–	–	2,652
7 to 12 months	–	–	1,822
Over 1 year	–	–	–
	–	485	11,183

The following table also sets forth a breakdown of trade receivables by customer:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
The local power grid company	–	–	7,869
MSW Providers (mainly local government entities)	–	485	3,314
	–	485	11,183

As at December 31, 2014 and 2015, its trade receivables amounted to RMB0.49 million and RMB11.18 million. The increase in trade receivables during the Track Record Period was mainly a result of the commencement of commercial operation in 2015.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the indicated balance sheet dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	8,519	8,828	354
Deposits	80	30	–
Other receivables	–	440	532
Due from the immediate holding company	18,477	–	–
Loan to a fellow subsidiary	–	–	3,500
	27,076	9,298	4,386
Portion classified as current assets	(18,657)	(713)	(4,386)
Non-current portion	8,419	8,585	–

Beikong Shuyang's prepayments, deposits and other receivables increased from RMB27.08 million as at 31 December 2013 to RMB9.30 million as at 31 December 2014, which was mainly due to settlement of balance due from the immediate holding company in 2014.

Its prepayments, deposits and other receivables decreased from RMB9.30 million as at 31 December 2014 to RMB4.39 million as at 31 December 2015, which was combined effect of settlement of prepayment to subcontractor and loan to a fellow subsidiary in 2015.

Trade payables

Beikong Shuyang's trade payables are non-interest-bearing and normally settled within one to six months. The following table sets forth an aged analysis of its trade payables, based on invoice date, as at the indicated balance sheet date:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	–	64	21,206
3 to 6 months	–	–	306
6 to 12 months	–	–	884
Over 1 year	–	–	553
	–	64	22,949
Unbilled	–	93,778	28,732
	–	93,842	51,681

As at December 31, 2014 and 2015, its trade payables amounted to RMB93.84 million and RMB51.68 million. The decrease in trade payables during the Track Record Period was mainly a result of the settlement of progress billing for the construction.

Other payables and accruals

Beikong Shuyang's other payables are non-interest-bearing and have an average term of three months in general. The following table sets forth a breakdown of its other payables and accruals as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	–	89	111
Accruals	41	226	304
Due to the immediate holding company	–	28	–
Due to a fellow subsidiary	–	–	306
	41	343	721

As at December 31, 2013, 2014 and 2015, its other payables and accruals amounted to RMB0.04 million, RMB0.34 million and RMB0.72 million. The increase in other payables and accruals during the Track Record Period was mainly a result of accrued staff costs in 2014 and accrued interest payables to Beijing Finance in 2015.

Indebtedness

The table below sets out an analysis of Beikong Shuyang's bank and other borrowings as at each of the balance sheet dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank loan, secured	–	72,397	–
Other loans	100,000	20,000	151,720
Total bank and other borrowings	100,000	92,397	151,720
Analysed into:			
Bank loans repayable:			
Within one year	–	5,000	–
In the second year	–	15,000	–
In the third to fifth years, inclusive	–	50,000	–
Beyond five years	–	2,397	–
	–	72,397	–
Other loans repayable:			
Within one year	100,000	20,000	10,000
In the second year	–	–	15,000
In the third to fifth years, inclusive	–	–	51,000
Beyond five years	–	–	75,720
	100,000	20,000	151,720
Total bank and other borrowings	100,000	92,397	151,720
Portion classified as current liabilities	(100,000)	(25,000)	(10,000)
	–	67,397	141,720

During the Track Record Period, all of its bank and other borrowings were denominated in Renminbi. The bank loan of Beikong Shuyang bore an interest at a floating rate of five years or above lending rate from the People's Bank of China. The other loans as at 31 December 2015 from a fellow subsidiary of Beikong Shuyang, carried an interest at a floating rate of 97% of five years or above lending rate from the People's Bank of China. The other loans as at 31 December 2013 and 2014 from the immediate holding company of Beikong Shuyang were interest-free.

As at December 31, 2013 and 2014, its bank and other borrowings amounted to RMB100.00 million and RMB92.40 million, remaining at similar level.

As at December 31, 2014 and 2015, its bank and other borrowings amounted to RMB92.40 million and RMB151.72 million. The increase in bank and other borrowings during the Track Record Period was mainly a result of increase in other loans.

Capital Commitments

The table below sets out an analysis of Beikong Shuyang's capital commitments as at each of the balance sheet dates indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	228,368	1,320	–

As at December 31, 2013, 2014 and 2015, its capital commitments amounted to RMB228.37 million, RMB1.32 million and nil. It was attributable from the contracts entered between Beikong Shuyang and contractors. The decrease in capital commitments during the Track Record Period was mainly a result of completion of construction of WTE plant.

Capital Expenditures

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	284	104	17
Operating concessions	19,702	175,121	1,802
	19,986	175,225	1,819

Beikong Shuyang's capital expenditures consisted of expenditures on property, plant and equipment and expenditures on operating concession. During the Track Record Period, Beikong Shuyang incurred capital expenditures of RMB19.99 million, RMB175.23 million and RMB1.82 million, respectively, for each of the three years ended 31 December 2013, 2014 and 2015, and a majority of which were related to the operating concessions.

(d) Management discussion and analysis on Beikong Wenchang

Business Overview

Beikong Wenchang

Beikong Wenchang was established under the laws of the PRC on 24 February 2010 and is indirectly wholly-owned by BEHL as at the Latest Practicable Date. The principal activity of Beikong Wenchang is the investment in, and operation of, the Beikong Wenchang Project located in Wenchang, Hainan Province of the PRC.

The Beikong Wenchang Project is a household waste incineration project operated on a Build-Operate-Transfer basis for a licensed period of 15 years commencing from July 2012 and ending in June 2027. It uses grate furnace technology and has household waste treatment capacity of 225 tonnes/day. The Beikong Wenchang Project commenced trial operations in July 2012.

Results of Operations

The following table sets forth selected items of the consolidated income statements for the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	8,672	12,189	13,870
Cost of sales	(5,802)	(10,299)	(9,928)
Gross profit	2,870	1,890	3,942
Administrative expenses	(2,225)	(1,994)	(1,896)
Finance costs	(1,654)	(1,322)	(1,198)
PROFIT/(LOSS) BEFORE TAX	(1,009)	(1,426)	848
Income tax credit/(expense)	(76)	399	(320)
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(1,085)	(1,027)	528

Description of Selected Items in the Consolidated Income Statement

Revenue

Waste-incineration power generation in Wenchang, Hainan Province of the PRC was the main business segment of Beikong Wenchang. In 2013, 2014 and 2015, it generated on grid electricity of 8,336,618 kWh, 12,886,725 kWh and 15,726,070 kWh, respectively and treated solid waste of 55,722 tonnes, 81,076 tonnes and 92,726 tonnes, respectively.

The following table sets out the breakdown of its revenue by each of its services during the Track Record Period:

	Year ended 31 December					
	2013	% to total revenue	2014	% to total revenue	2015	% to total revenue
	RMB'000		*RMB'000*		*RMB'000*	
Solid waste treatment services	4,492	51.80	5,834	47.86	6,407	46.19
Sale of electricity	4,180	48.20	6,355	52.14	7,463	53.81
	8,672	100.00	12,189	100.00	13,870	100.00

Revenue from solid waste treatment services

Its revenue from solid waste treatment services increased by RMB1.34 million or 29.88% from RMB4.49 million for the year ended 31 December 2013 to RMB5.83 million for the year ended 31 December 2014, while its revenue from solid waste treatment services further increased by RMB0.57 million or 9.82% from RMB5.83 million for the year ended 31 December 2014 to RMB6.41 million for the year ended 31 December 2015. Such increase was primarily due to increase in the volume of solid waste treated.

Revenue from sale of electricity

Beikong Wenchang mainly sells the power generated from its WTE plants to the local grid company. Beikong Wenchang's revenue from sale of electricity increased by RMB2.18 million or 52.03% from RMB4.18 million for the year ended 31 December 2013 to RMB6.36 million for the year ended 31 December 2014. While its revenue from sale of electricity further increased by RMB1.11 million or 17.44% from RMB6.36 million for the year ended 31 December 2014 to RMB7.46 million for the year ended 31 December 2015. Such increase was primarily due to increase in the volume of electricity generated.

Cost of sales

The following table sets out the breakdown of its cost of sales by nature during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries and allowances	2,967	51.14	3,848	37.36	4,602	46.35
Repair and maintenance cost	1,275	21.97	4,098	39.79	4,214	42.45
Cost of raw materials	457	7.88	1,028	9.98	1,036	10.44
Treatment cost	510	8.79	553	5.37	662	6.67
Environment protection cost	134	2.31	257	2.50	448	4.51
Government grant	–	–	–	–	(1,500)	(15.11)
Others	459	7.91	515	5.00	466	4.69
	5,802	100.00	10,299	100.00	9,928	100.00

During the Track Record Period, its cost of sales primarily consisted of salaries and allowances and repair and maintenance cost.

Gross profit and gross profit margin

For each of the three years ended 31 December 2013, 2014 and 2015, its gross profit margin was 33.10%, 15.51% and 28.42%, respectively. Its gross profit margin decreased significantly from 33.10% in 2013 to 15.51% in 2014, mainly driven by the increase in repair and maintenance cost incurred. Yet, its gross profit margin increased significantly from 15.51% in 2014 to 28.42% in 2015, mainly attributable to the government grant received.

Administrative expenses

The following table sets out the breakdown of its administrative expenses during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries and allowances	756	33.98	973	48.80	1,187	62.61
Travelling expenses	436	19.60	358	17.95	263	13.87
Entertainment expenses	410	18.43	239	11.99	160	8.44
Depreciation	92	4.13	96	4.81	92	4.85
Property expenses	–	–	–	–	27	1.42
Professional fee	99	4.45	111	5.57	–	–
Other office expenses	432	19.42	217	10.88	167	8.81
	2,225	100.00	1,994	100.00	1,896	100.00

Its administrative expenses comprise salaries and allowances, travelling expenses, entertainment expenses, depreciation, property expenses, professional fee and other office expenses. For each of the three years ended 31 December 2013, 2014 and 2015, Beikong Wenchang incurred administrative expenses of RMB2.23 million, RMB1.99 million and RMB1.90 million, respectively, representing approximately 25.66%, 16.36% and 13.67% of its total revenue, respectively.

Finance costs

The following table sets out the breakdown of its finance costs during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	1,652	1,268	879
Loan from a fellow subsidiary	–	–	26
Imputed interest on a loan from the immediate holding company	–	48	283
Total interest expenses	1,652	1,316	1,188
Increase in discounted amounts of provision for major overhauls arising from the passage of time	2	6	10
Total finance costs	1,654	1,322	1,198

Finance cost of RMB1.65 million, RMB 1.32 million and RMB1.20 million in 2013, 2014 and 2015, respectively, were mainly interest on bank loans.

Income tax expense

The following table sets out the breakdown of its income tax expenses during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China	–	–	21
Deferred	76	(399)	299
Total tax charge/(credit) for the year	76	(399)	320

For each of the three years ended 31 December 2013, 2014 and 2015, Beikong Wenchang incurred income tax expense of RMB0.08 million and RMB0.32 million in 2013 and 2015, income tax credit of RMB0.40 million in 2014.

Review of Historical Results of Operation

Revenue

Its revenue increased by RMB3.52 million or 40.56% from RMB8.67 million for the year ended 31 December 2013 to RMB12.19 million for the year ended 31 December 2014; while its revenue further increased by RMB1.68 million or 13.79% from RMB12.19 million for the year ended 31 December 2014 to RMB13.87 million for the year ended 31 December 2015. Since Beikong Wenchang started its trial operation in July 2012, the amount of waste recycled was 55,722 tonnes, 81,076 tonnes and 92,726 tonnes in 2013, 2014 and 2015 respectively (increase of 45.50% and 14.37% was recorded in 2014 and 2015 respectively), which was in line with the increase in income (increase of 40.56% and 13.79% was recorded in 2014 and 2015 respectively).

Cost of sales

Beikong Wenchang's cost of sales increased by RMB4.50 million or 77.51% from RMB5.80 million in 2013 to RMB10.30 million in 2014, while its cost of sales slightly decreased by RMB0.37 million or 3.60% from RMB10.30 million in 2014 to RMB9.93 million in 2015. Due to the large amount of household waste recycled in 2014 when compared to 2013, the cost of raw materials increased by RMB0.57 million. The expenses of repairing works increased due to typhoon in 2014 (increased by RMB2.82 million in 2014 as compared with 2013). With the grants for typhoon of RMB1.50 million received from the government in 2015, the cost of sales of the year decreased slightly.

Gross profit

As a result of the foregoing, Beikong Wenchang recorded gross profit of RMB2.87 million, RMB1.89 million and RMB3.94 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Administrative expenses

Beikong Wenchang's administrative expenses decreased by RMB0.23 million or 10.38% from RMB2.23 million in 2013 to RMB1.99 million in 2014, while its administrative expenses further decreased by RMB0.10 million or 4.91% from RMB1.99 million in 2014 to RMB1.90 million in 2015, Such decrease was mainly due to the decrease in travelling expenses and entertainment expenses.

Finance costs

Beikong Wenchang's finance costs decreased by RMB0.33 million or 20.07% from RMB1.65 million in 2013 to RMB1.32 million in 2014, while its finance costs further decreased by RMB0.12 million or 9.38% from RMB1.32 million in 2014 to RMB1.20 million in 2015, which was in line with the bank and other loans balances in corresponding years.

Income tax expense

Beikong Wenchang's income tax expense was RMB0.08 million in 2013 and income tax credit was RMB0.40 million in 2014. Such difference was mainly attributable to a larger amount of expenses not deductible for tax in 2013.

Its income tax exposure changed from income tax credit of RMB0.40 million in 2014 to income tax expense of RMB0.32 million in 2015, which was mainly due to profit recognised in 2015.

Profit/(loss) for the year

As a result of the foregoing, Beikong Wenchang recorded loss of RMB1.09 million and RMB1.03 million for the year ended 31 December 2013 and 2014, respectively. It recorded profit of RMB0.53 million for the year ended 31 December 2015.

Liquidity and Capital Resources

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

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows used in operating activities	7,219	1,548	1,746
Net cash flows used in investing activities	(47)	(32)	1,562
Net cash flows from/(used in) financing activities	(6,617)	(1,280)	(2,384)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	555	236	924
Cash and cash equivalents at beginning of year	528	1,083	1,319
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,083	1,319	2,243

Operating activities

For the year ended 31 December 2015, Beikong Wenchang had net cash from operating activities of RMB1.75 million, mainly as a result of (i) decrease in a receivable under a service concession arrangement of RMB2.29 million due to the receipt of guaranteed amount from the government authority; and (ii) profit before tax generated in 2015 of RMB0.85 million. This was partially offset by (i) increase in trade receivables of RMB1.21 million; and (ii) PRC corporate income tax paid of RMB0.23 million.

For the year ended 31 December 2014, Beikong Wenchang had net cash from operating activities of RMB1.55 million, mainly as a result of decrease in a receivable under a service concession arrangement of RMB1.77 million due to the receipt of guaranteed amount from the government authority. This was partially offset by increase in inventories of RMB0.12 million.

For the year ended 31 December 2013, Beikong Wenchang had net cash from operating activities of RMB7.22 million, mainly as a result of (i) increase in other payables and accruals of RMB6.68 million due to the receipt of financial support from the immediate holding company for daily operation; and (ii) decrease in a receivable under a service concession arrangement of RMB1.64 million due to receipt of guaranteed amount from the government authority. This was partially offset by loss before tax generated in 2013 of RMB1.01 million.

Investing activities

For the year ended 31 December 2015, Beikong Wenchang had net cash from investing activities of RMB1.56 million, mainly due to government grant received of RMB1.50 million.

For the year ended 31 December 2014, Beikong Wenchang had net cash used in investing activities of RMB0.03 million, due to (i) increase in pledged deposit of RMB0.02 million; and (ii) purchases of items of property, plant and equipment of RMB0.01 million.

For the year ended 31 December 2013, Beikong Wenchang had net cash used in investing activities of RMB0.05 million, due to (i) increase in pledged deposit of RMB0.03 million; and (ii) purchases of items of property, plant and equipment of RMB0.02 million.

Financing activities

For the year ended 31 December 2015, Beikong Wenchang had net cash used in financing activities of RMB2.38 million, mainly due to repayment of a bank loan of RMB5.00 million, which was partially offset by new other loans obtained of RMB3.50 million.

For the year ended 31 December 2014, Beikong Wenchang had net cash used in financing activities of RMB1.28 million, due to (i) repayment of a bank loan of RMB5.00 million; and (ii) interest paid of RMB1.28 million, which was partially offset by new other loans obtained of RMB5.00 million.

For the year ended 31 December 2013, Beikong Wenchang had net cash used in financing activities of RMB6.62 million, due to (i) repayment of a bank loan of RMB5.00 million; and (ii) interest paid of RMB1.62 million.

Net current (liabilities)/assets

The table below sets out selected information for its current assets and current liabilities as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT ASSETS			
Inventories	227	349	279
Receivable under a service concession arrangement	1,772	2,290	2,651
Trade receivables	4,192	4,421	5,627
Prepayments, deposits and other receivables	318	274	315
Income tax recoverable	–	–	211
Other taxes recoverable	516	–	–
Pledged deposit	78	97	29
Cash and bank balances	1,083	1,319	2,243
Total current assets	8,186	8,750	11,355
CURRENT LIABILITIES			
Trade payables	1,920	2,251	2,245
Other payables and accruals	11,610	11,133	11,290
Other taxes payables	–	26	228
Bank and other borrowings	5,000	5,000	13,253
Total current liabilities	18,530	18,410	27,016
NET CURRENT LIABILITIES	(10,344)	(9,660)	(15,661)

Beikong Wenchang recorded net current liabilities of RMB10.34 million, RMB9.66 million and RMB15.66 million as at 31 December 2013, 2014 and 2015, respectively, which mainly reflected (i) other payables and accruals; and (ii) bank and other borrowings.

Beikong Wenchang's net current liabilities of RMB10.34 million as at 31 December 2013 slightly decreased to net current liabilities of RMB9.66 million as at 31 December 2014,.maintaining at a similar level.

Beikong Wenchang's net current liabilities of RMB9.66 million as at 31 December 2014 increased to net current liabilities of RMB15.66 million as at 31 December 2015, which was primarily due to the increase in bank and other borrowings of RMB8.25 million.

Discussion of certain balance sheet items

Property, plant and equipment

As at December 31, 2013, 2014 and 2015, its property, plant and equipment amounted to RMB0.43 million, RMB0.34 million and RMB0.26 million. The decrease in property, plant and equipment during the Track Record Period was mainly a result of depreciation charged net of additions.

Receivable under a service concession arrangement

The table below sets out selected information of the receivable under a service concession arrangement with respect to Beikong Wenchang's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Receivable under service concession arrangement	43,618	41,846	39,556
Portion classified as current assets	(1,772)	(2,290)	(2,651)
Non-current portion	41,846	39,556	36,905

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of Beikong Wenchang's solid waste treatment and power generation operation. The directors of Beikong Wenchang are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. Beikong Wenchang does not hold any collateral or other credit enhancements over this balance.

Inventories

Inventories represented coal used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by Beikong Wenchang.

Trade receivables

Beikong Wenchang's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, in which the credit period is generally for a period of one to three months. The following table sets forth an aged analysis of trade receivables as at the indicated balance sheet dates, based on the invoice date and net of impairment:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	2,732	3,491	3,301
4 to 6 months	1,126	930	2,326
7 to 12 months	–	–	–
Over 1 year	334	–	–
	4,192	4,421	5,627

The following table also sets forth a breakdown of trade receivables by customer:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
The local power grid company	1,292	868	703
MSW Providers (mainly local government entities)	2,900	3,553	4,924
	4,192	4,421	5,627

As at December 31, 2013, 2014 and 2015, its trade receivables amounted to RMB4.19 million, RMB4.42 million and RMB5.63 million. The increase in trade receivables during the Track Record Period was in line with the increase in revenue.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the indicated balance sheet dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	129	493	713
Other receivables	291	260	250
	420	753	963
Portion classified as current assets	(318)	(274)	(315)
Non-current portion	102	479	648

As at December 31, 2013, 2014 and 2015, its prepayments, deposits and other receivables amounted to RMB0.42 million, RMB0.75 million and RMB0.96 million. The increase in prepayments, deposits and other receivables during the Track Record Period was mainly a result of the increase in prepayment in relation to repair and maintenance.

Trade payables

Beikong Wenchang's trade payables are non-interest-bearing and normally settled within one to six months. The following table sets forth an aged analysis of its trade payables, based on invoice date, as at the indicated balance sheet date:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	1	99	99
4 to 6 months	82	–	4
7 to 12 months	1,442	5	–
Over 1 year	–	1,442	1,449
	1,525	1,546	1,552
Unbilled	395	705	693
	1,920	2,251	2,245

As at December 31, 2013 and 2014, its trade payables amounted to RMB1.92 million and RMB2.25 million. The increase in trade payables during the Track Record Period was mainly a result of the increase in purchase of raw materials. Trade payables remained steady as at December 31, 2014 and 2015.

Other payables and accruals

Beikong Wenchang's other payables are non-interest-bearing and have an average term of three months in general. The following table sets forth a breakdown of its other payables and accruals as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	110	133	290
Due to the immediate holding company	11,500	11,000	11,000
	11,610	11,133	11,290

As at December 31, 2013, 2014 and 2015, its other payables and accruals amounted to RMB11.61 million, RMB11.13 million and RMB11.29 million, maintaining at a steady level.

Indebtedness

The table below sets out an analysis of Beikong Wenchang's bank and other borrowings as at each of the balance sheet dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank loan, secured	20,000	15,000	10,000
Other loans	–	4,470	8,253
Total bank and other borrowings	20,000	19,470	18,253

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Analysed into:			
Bank loans repayable:			
Within one year	5,000	5,000	5,000
In the second year	5,000	5,000	5,000
In the third to fifth years, inclusive	10,000	5,000	–
	20,000	15,000	10,000
Other loans repayable:			
Within one year	–	–	8,253
In the second year	–	4,470	–
	–	4,470	8,253
Total bank and other borrowings	20,000	19,470	18,253
Portion classified as current liabilities	(5,000)	(5,000)	(13,253)
Non-current portion	15,000	14,470	5,000

During the Track Record Period, all of its bank and other borrowings were denominated in Renminbi. The bank loan of Beikong Wenchang carried an interest at a fixed rate of five years or above lending rate from the People's Bank of China at the time when the loan was drawn. The other loans as at 31 December 2014 and 2015 advanced from the immediate holding company of Beikong Wenchang were interest-free. The other loans as at 31 December 2015 advanced from a fellow subsidiary Beikong Wenchang carried an interest at a floating rate of six months lending rate from the People's Bank of China.

As at December 31, 2013, 2014 and 2015, its bank and other borrowings amounted to RMB20.00 million, RMB19.47 million and RMB18.25 million. The decrease in bank and other borrowings during the Track Record Period was mainly a result of decrease in bank loans, which was partly offset by increase in other loans.

Capital commitments

Beikong Wenchang has no capital commitments as at December 31, 2013, 2014 and 2015.

Capital Expenditures

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	16	13	6

Beikong Wenchang's capital expenditures consisted of expenditures on property, plant and equipment. During the Track Record Period, Beikong Wenchang incurred capital expenditures of RMB0.02 million, RMB0.01 million and RMB0.01 million, respectively, for each of the three years ended 31 December 2013, 2014 and 2015.

(e) Management discussion and analysis on Hunan Hengxing

Business Overview

Hunan Hengxing

Hunan Hengxing was established under the laws of the PRC on 23 February 2006 and is indirectly owned as to 65% by BEHL as at the Latest Practicable Date. The principal activity of Hunan Hengxing is the investment in, and operation of, the Hunan Hengxing Project located in Hunan Province of the PRC.

The Hunan Hengxing Project is a hazardous waste and medical waste treatment project which has hazardous waste and medical waste treatment capacity of 35,000 tonnes/year, including waste containing copper such as copper sulphate of 6,000 tonnes/year, acidic-alkai waste and emulsifying liquid waste of 6,000 tonnes/year, and heavy metal sludge of 18,000 tonnes/year. Hunan Hengxing commenced trial operations in May 2013.

Results of Operations

The following table sets forth selected items of the consolidated income statements for the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	20,405	47,436	57,027
Cost of sales	(15,504)	(34,938)	(43,219)
Gross profit	4,901	12,498	13,808
Other income	57	42	1,671
Selling and distribution expenses	(836)	(1,258)	(1,026)
Administrative expenses	(2,660)	(2,962)	(3,212)
Other operating expenses, net	(19)	(26)	–
Finance costs	(1,388)	(2,087)	(1,705)
PROFIT BEFORE TAX	55	6,207	9,536
Income tax expense	(872)	(349)	(366)
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(817)	5,858	9,170

Description of Selected Items in the Consolidated Income Statement

Revenue

Hazardous waste and medical waste treatment in Hunan Province of the PRC was the main business segment of Hunan Hengxing. In 2013, 2014 and 2015, it had treated hazardous and medical waste of 2,061 tonnes, 19,957 tonnes and 20,268 tonnes, respectively.

The following table sets out the breakdown of its revenue by each of its services during the Track Record Period:

	Year ended 31 December					
	2013	**% to total revenue**	**2014**	**% to total revenue**	**2015**	**% to total revenue**
	RMB'000		*RMB'000*		*RMB'000*	
Hazardous waste treatment services	7,434	36.43	24,862	52.41	49,794	87.32
Construction services	12,971	63.57	22,574	47.59	7,233	12.68
	20,405	100.00	47,436	100.00	57,027	100.00

Revenue from hazardous waste treatment services

Its revenue from hazardous waste treatment services increased by RMB17.43 million or 234.44% from RMB7.43 million for the year ended 31 December 2013 to RMB24.86 million for the year ended 31 December 2014, while its revenue from hazardous waste treatment services further increased by RMB24.93 million or 100.28% from RMB24.86 million for the year ended 31 December 2014 to RMB49.79 million for the year ended 31 December 2015. Such increase was mainly due to increase in hazardous waste collected.

Construction revenue

Hunan Hengxing's construction revenue increased by RMB9.60 million or 74.03% from RMB12.97 million for the year ended 31 December 2013 to RMB22.57 million for the year ended 31 December 2014. The increase was mainly driven by the completion of bury field construction in late 2014.

However, its construction revenue decreased by RMB15.34 million or 67.96% from RMB22.57 million for the year ended 31 December 2014 to RMB7.23 million for the year ended 31 December 2015, mainly driven by the construction of incineration.

Cost of sales

The following table sets out the breakdown of its cost of sales by nature during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Transportation fee	577	3.72	1,730	4.95	10,859	25.12
Amortisation	2	0.01	3,088	8.84	5,315	12.30
Other treatment cost	230	1.48	3,318	9.49	8,016	18.55
Construction costs	10,503	67.75	18,279	52.32	5,857	13.55
Repairs and maintenance	744	4.80	1,537	4.40	5,747	13.30
Salaries and allowance	1,933	12.47	3,665	10.49	3,929	9.09
Raw material consumed	969	6.25	2,113	6.05	1,450	3.36
Others	546	3.52	1,208	3.46	2,046	4.73
	15,504	100.00	34,938	100.00	43,219	100.00

During the Track Record Period, its cost of sales primarily consisted of cost of construction costs, Transportation fee, other treatment cost and salaries and allowance.

Gross profit and gross profit margin

For each of the three years ended 31 December 2013, 2014 and 2015, its gross profit margin was 24.02%, 26.35% and 24.21%, respectively. Its gross profit margin remains steady throughout the Track Record Period.

Other income

The following table sets out the breakdown of its other income during the years/periods indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	47	40	33
Refund of value-added tax	–	–	1,638
Others	10	2	–
	57	42	1,671

Other income of RMB0.06 million, RMB0.04 million and RMB1.67 million in 2013, 2014 and 2015, respectively, were mainly bank interest income in 2013 and 2014; and mainly refund of value-added tax in 2015.

Selling and distribution expenses

The following table sets out the breakdown of its selling and distribution expenses during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries expenses	395	47.25	598	47.53	686	66.86
Traveling expenses	266	31.82	418	33.23	262	25.54
Others	175	20.93	242	19.24	78	7.60
	836	100.00	1,258	100.00	1,026	100.00

Its selling and distribution expenses comprise Salaries expenses, Traveling expenses and others. For each of the three years ended 31 December 2013, 2014 and 2015, Hunan Hengxing incurred administrative expenses of RMB0.84 million, RMB1.26 million and RMB1.03 million, respectively, representing approximately 4.10%, 2.65% and 1.80% of its total revenue, respectively.

Administrative expenses

The following table sets out the breakdown of its administrative expenses during the Track Record Period:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Salaries and allowances	812	30.53	1,168	39.43	1,353	42.12
Travelling expenses	689	25.90	648	21.88	579	18.03
Rental expense	270	10.15	279	9.42	289	9.00
Depreciation	222	8.35	284	9.59	238	7.41
Office expenses	418	15.71	322	10.87	487	15.16
Others	249	9.36	261	8.81	266	8.28
	2,660	100.00	2,962	100.00	3,212	100.00

Its administrative expenses comprise salaries and allowances, travelling expenses, rental expense, depreciation, office expenses and others. For each of the three years ended 31 December 2013, 2014 and 2015, Hunan Hengxing incurred administrative expenses of RMB2.66 million, RMB2.96 million and RMB3.21 million, respectively, representing approximately 13.04%, 6.24% and 5.63% of its total revenue, respectively.

Finance costs

The following table sets out the breakdown of its finance costs during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	1,388	1,762	1,386
Other loan from the immediate holding company	–	325	317
Total interest expenses	1,388	2,087	1,703
Increase in discounted amounts of provision for major overhauls arising from the passage of time	–	–	2
	1,388	2,087	1,705

Finance cost of RMB1.39 million, RMB2.09 million and RMB1.71 million in 2013, 2014 and 2015, respectively, were mainly interest on bank loans.

Income tax expense

The following table sets out the breakdown of its income tax expenses during the Track Record Period:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China	–	–	1,208
Deferred	872	349	(842)
Total tax charge for the year	872	349	366

For each of the three years ended 31 December 2013, 2014 and 2015, Hunan Hengxing incurred income tax expense of RMB0.87 million, RMB0.35 million and RMB0.37 million, respectively.

Review of Historical Results of Operation

Revenue

Its revenue increased by RMB27.03 million or 132.47% from RMB20.41 million for the year ended 31 December 2013 to RMB47.44 million for the year ended 31 December 2014; while its revenue further increased by RMB9.59 million or 20.22% from RMB47.44 million for the year ended 31 December 2014 to RMB57.03 million for the year ended 31 December 2015. In 2014, the completion of the steel structured rain shelter for the landfill site generated construction income of RMB22.57 million and the amount of hazardous and medical waste treated grew significantly. As a result, Hunan Hengxing recorded an increase of 132.47% in 2014 as compared with 2013. In 2015, construction income decreased by RMB15.34 million. However, since the income from hazardous waste treatment services increased by RMB24.93 million, income in 2015 still increased by 20.22% as compared with 2014.

Cost of sales

Hunan Hengxing's cost of sales increased by RMB19.43 million or 125.35% from RMB15.50 million in 2013 to RMB34.94 million in 2014, while its cost of sales further increased by RMB8.28 million or 23.70% from RMB34.94 million in 2014 to RMB43.22 million in 2015. In 2014 and 2015, cost of sales increased by 125.35% and 23.70%, respectively, due to the aforementioned reason for the increase in income.

Gross profit

As a result of the foregoing, Hunan Hengxing recorded gross profit of RMB4.90 million, RMB12.50 million and RMB13.81 million for the year ended 31 December 2013, 2014 and 2015, respectively.

Other income

Hunan Hengxing's other income decreased from RMB0.06 million in 2013 to RMB0.04 million in 2014, maintaining at a similar level and the amount was minimal.

Yet, its other income increased by RMB1.63 million or 3,878.57% from RMB0.04 million in 2014 to RMB1.67 million in 2015, which was primarily due to VAT refund.

Selling and distribution expenses

Hunan Hengxing's selling and distribution expenses increased by RMB0.42 million or 50.48% from RMB0.84 million in 2013 to RMB1.26 million in 2014. Such increase was mainly due to Hunan Hengxing actively looking for new customers and increased the number of salespersons.

In contrast, its selling and distribution expenses decreased by RMB0.23 million or 18.44% from RMB1.26 million in 2014 to RMB1.03 million in 2015, which was mainly due to decrease in travelling expense incurred as Hengxing did not search for customers in remote area.

Administrative expenses

Hunan Hengxing's administrative expenses increased by RMB0.30 million or 11.35% from RMB2.66 million in 2013 to RMB2.96 million in 2014, while its administrative expenses further increased by RMB0.25 million or 8.44% from RMB2.96 million in 2014 to RMB3.21 million in 2015, which was mainly due to increase in salaries and allowances expenses.

Finance costs

Hunan Hengxing's finance costs increased by RMB0.70 million or 50.36% from RMB1.39 million in 2013 to RMB2.09 million in 2014. Yet, its finance costs further decreased by RMB0.38 million or 18.30% from RMB2.09 million in 2014 to RMB1.71 million in 2015. Such changes were in line with the bank and other loans balances.

Income tax expense

Hunan Hengxing's income tax expense decreased by RMB0.52 million or 59.98% from RMB0.87 million in 2013 to RMB0.35 million in 2014. Such decrease was mainly attributable to combined effects of the increase in tax concession enjoyed and the increase in expenses not deductible for tax in 2014.

Its income tax expense slightly increased by RMB0.02 million or 4.87% from RMB0.35 million in 2014 to RMB0.37 million in 2015, which was mainly attributable to combined effects of the decrease in tax concession enjoyed and the decrease in expenses not deductible for tax in 2015.

Profit for the year

As a result of the foregoing, Hunan Hengxing recorded loss of RMB0.82 million for the year ended 31 December 2013. Meanwhile, Hunan Hengxing recorded profit of RMB5.86 million and RMB9.17 million for the year ended 31 December 2014 and 2015, respectively.

Liquidity and Capital Resources

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

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows from/(used in) operating activities	(74)	12,030	15,777
Net cash flows used in investing activities	(13,574)	(22,792)	(7,365)
Net cash flows from/(used in) financing activities	10,741	4,009	(11,799)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,907)	(6,753)	(3,387)
Cash and cash equivalents at beginning of year	19,457	16,550	9,797
CASH AND CASH EQUIVALENTS AT END OF YEAR	16,550	9,797	6,410

Operating activities

For the year ended 31 December 2015, Hunan Hengxing had net cash from operating activities of RMB15.78 million, mainly as a result of profit before tax generated in 2014 of RMB9.54 million, which was primarily adjusted for amortisation of operating concession of RMB9.11 million.

For the year ended 31 December 2014, Hunan Hengxing had net cash from operating activities of RMB12.03 million, mainly as a result of profit before tax generated in 2014 of RMB6.21 million, which was primarily adjusted for amortisation of operating concession of RMB5.31 million.

For the year ended 31 December 2013, Hunan Hengxing had net cash used in operating activities of RMB0.07 million, mainly as a result of decrease in trade payables of RMB6.74 million due to the settlement of construction costs incurred. This was largely offset by (i) profit before tax generated in 2013 of RMB0.06 million; which was primarily adjusted for finance costs of RMB1.39 million; (ii) decrease in trade and bills receivables of RMB3.11 million due to the settlements from various customers in relation to hazardous waste treatment services; and (iii) decrease in prepayments, deposits and other receivables of RMB1.43 million due to the prepayment for construction being recognised as construction costs in 2013.

Investing activities

For the year ended 31 December 2015, Hunan Hengxing had net cash used in investing activities of approximately RMB7.37 million, mainly due to additions of operating concession of RMB7.23 million.

For the year ended 31 December 2014, Hunan Hengxing had net cash used in investing activities of approximately RMB22.79 million, mainly due to additions of operating concession of RMB22.57 million.

For the year ended 31 December 2013, Hunan Hengxing had net cash used in investing activities of approximately RMB13.57 million, mainly due to additions of operating concession of RMB12.97 million.

Financing activities

For the year ended 31 December 2013, Hunan Hengxing had net cash used in financing activities of RMB11.80 million, mainly due to (i) repayment of bank loan of RMB5.10 million; and (ii) repayment of loan from the immediate holding company of RMB5.00 million.

For the year ended 31 December 2013, Hunan Hengxing had net cash from financing activities of RMB4.01 million, due to loan from the immediate holding company of RMB10.00 million; which was partially offset by (i) repayment of bank loan of RMB3.90 million; and (ii) interest paid of RMB2.09 million.

For the year ended 31 December 2013, Hunan Hengxing had net cash from financing activities of RMB10.74 million, due to new bank loan of obtained RMB14.00 million; which was partially offset by (i) repayment of bank loan of RMB1.90 million; and (ii) interest paid of RMB1.36 million.

Net current (liabilities)/assets

The table below sets out selected information for its current assets and current liabilities as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
CURRENT ASSETS			
Inventories	97	210	198
Trade and bills receivables	2,580	3,371	5,265
Prepayments, deposits and other receivables	287	561	1,741
Cash and bank balances	16,550	9,797	6,410
Total current assets	19,514	13,939	13,614
CURRENT LIABILITIES			
Trade payables	36,077	36,545	39,587
Other payables	957	2,120	2,890
Income tax payable	–	–	567
Other taxes payables	1	2	448
Bank and other borrowings	3,900	15,100	10,100
Total current liabilities	40,935	53,767	53,592
NET CURRENT LIABILITIES	(21,421)	(39,828)	(39,978)

Hunan Hengxing recorded net current liabilities of RMB21.42 million, RMB39.83 million and RMB39.98 million as at 31 December 2013, 2014 and 2015, respectively, which mainly reflected trade payables.

Hunan Hengxing's net current liabilities of RMB21.42 million as at 31 December 2013 decreased to net current liabilities of RMB39.83 million as at 31 December 2014, which was primarily due to (i) the increase in bank and other borrowings of RMB11.20 million; and (ii) the decrease in cash and bank balances of RMB6.75 million.

Hunan Hengxing's net current liabilities of RMB39.83 million as at 31 December 2014 slightly decreased to net current liabilities of RMB39.98 million as at 31 December 2015, maintaining at steady level.

Discussion of Certain Balance Sheet Items

Property, plant and equipment

As at December 31, 2013, 2014 and 2015, its property, plant and equipment amounted to RMB1.31 million, RMB1.27 million and RMB1.16 million, representing the motor vehicles and office equipment for administrative purpose. The balance has no material fluctuation during the Track Record Period.

Operating concessions

The table below sets out selected information of the operating concessions with respect to Hunan Hengxing's service concession arrangements as at the respective dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	206,627	219,598	242,172
Accumulated amortisation	–	–	(5,314)
Net carrying amount	206,627	219,598	236,858
Net carrying amount:			
At 1 January	206,627	219,598	236,858
Additions	12,971	22,574	7,233
Amortisation provided during the year	–	(5,314)	(9,110)
At 31 December	219,598	236,858	234,981
At 31 December:			
Cost	219,598	242,172	249,405
Accumulated amortisation	–	(5,314)	(14,424)
Net carrying amount	219,598	236,858	234,981

Inventories

Inventories represented raw material used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by Hunan Hengxing.

Trade and bills receivables

Hunan Hengxing's trade receivables arise from the provision of hazardous waste treatment services, in which the credit period is generally for a period of one to three months. The following table sets forth an aged analysis of trade and bills receivables as at the indicated balance sheet dates, based on the invoice date and net of impairment:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	559	2,999	4,253
4 to 6 months	–	367	390
7 to 12 months	2,021	5	436
Over 1 year	–	–	186
	2,580	3,371	5,265

As at December 31, 2013, 2014 and 2015, its trade and bills receivables amounted to RMB2.58 million, RMB3.37 million and RMB5.27 million. The increase in trade receivables during the Track Record Period was mainly a result of increase in number of customers in 2014 and major sales from several new customers in 2015.

Prepayments, deposits and other receivables

The following table sets forth a breakdown of prepayments, deposits and other receivables as at the indicated balance sheet dates:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	350	668	2,929
Other receivables	32	63	556
	382	731	3,485
Portion classified as current assets	(287)	(561)	(1,741)
Non-current portion	95	170	1,744

As at December 31, 2013, 2014 and 2015, its prepayments, deposits and other receivables amounted to RMB0.38 million, RMB0.73 million and RMB3.49 million. The increase in prepayments, deposits and other receivables during the Track Record Period was mainly a result of the increase in the prepayments made to several supplies for equipment, construction cost and consultancy service in 2014 and prepayment of the purchase of machinery in 2015.

Trade payables

Hunan Hengxing's trade payables are non-interest-bearing and normally settled within one to six months. The following table sets forth an aged analysis of its trade payables, based on invoice date, as at the indicated balance sheet date:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	2,180	71	738
4 to 6 months	5,023	10	3,474
7 to 12 months	1,429	38	255
Over 1 year	–	3,283	1,404
	8,632	3,402	5,871
Unbilled	27,445	33,143	33,716
	36,077	36,545	39,587

As at December 31, 2013. 2014 and 2015, its trade payables amounted to RMB36.08 million, RMB36.55 million and RMB39.59 million. The increase in trade payables during the Track Record Period was mainly a result of increase in construction cost for incineration system and burry field in 2015.

Other payables

Hunan Hengxing's other payables are non-interest-bearing and have an average term of three months in general. The following table sets forth a breakdown of its other payables and accruals as at the dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Receipt in advance	869	1,301	1,355
Other payables	88	819	1,535
	957	2,120	2,890

As at December 31, 2013, 2014 and 2015, its other payables amounted to RMB0.96 million, RMB2.12 million and RMB2.89 million. The increase in other payables during the Track Record Period was mainly a result of increase in number of customers.

Indebtedness

The table below sets out an analysis of Hunan Hengxing's bank and other borrowings as at each of the balance sheet dates indicated:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank loan, unsecured	27,100	23,200	18,100
Other loan from the immediate holding company, unsecured	–	10,000	5,000
Total bank and other borrowings	27,100	33,200	23,100
Analysed into:			
Bank loan repayable:			
Within one year	3,900	5,100	5,100
In the second year	5,100	5,100	6,200
In the third to fifth years, inclusive	18,100	13,000	6,800
	27,100	23,200	18,100
Other loan repayable within one year	–	10,000	5,000
Total bank and borrowings	27,100	33,200	23,100
Portion classified as current liabilities	(3,900)	(15,100)	(10,100)
Non-current portion	23,200	18,100	13,000

During the Track Record Period, all of its bank and other borrowings were denominated in Renminbi. The bank loan of Hunan Hengxing carried an interest at a floating rate of five years or above lending rate from the People's Bank of China plus margin. The other loan advances from the immediate holding company of Hunan Hengxing carried an interest at a floating rate of one year lending rate from the People's Bank of China.

Hunan Hengxing's bank and other borrowings increased from RMB27.10 million as at December 31, 2013 to RMB33.20 million as at December 31, 2014. Such increase was mainly attributable to increase in other loan from the immediate holding company.

Its bank and other borrowings decreased from RMB33.20 million as at December 31, 2014 to RMB23.10 million as at December 31, 2015. Such decrease was mainly attributable to decrease in bank loan and other loan from the immediate holding company.

Capital Commitments

The table below sets out an analysis of Hunan Hengxing's capital commitments as at each of the balance sheet dates indicated:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	1,446	2,383	1,041

Hunan Hengxing's capital commitments increased from RMB1.45 million as at December 31, 2013 to RMB2.38 million as at December 31, 2014. Such increase was mainly attributable to the maintenance contracts entered between Hunan Hengxing and suppliers in 2014.

Its capital commitments decreased from RMB2.38 million as at December 31, 2014 to RMB1.04 million as at December 31, 2015. Such decrease was mainly attributable to the completion of the maintenance contracts signed in 2014 and the new contracts entered for technical upgrade in 2015.

Capital Expenditures

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	652	258	165
Operating concession	12,971	22,574	7,233
	13,623	22,832	7,398

Hunan Hengxing's capital expenditures consisted of expenditures on property, plant and equipment and expenditures on operating concession. During the Track Record Period, Hunan Hengxing incurred capital expenditures of RMB13.62 million, RMB22.83 million and RMB7.40 million, respectively, for each of the three years ended 31 December 2013, 2014 and 2015, and a majority of which were related to the operating concessions.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.bdhk.com.hk):

- the annual report of the Company for the year ended 31 December 2013 dated 28 March 2014 (pages 26 to 96);
- the annual report 2014 of the Company for the year ended 31 December 2014 dated 31 March 2015 (pages 27 to 118); and
- the annual report 2015 of the Company for the year ended 31 December 2015 dated 31 March 2016 (pages 33 to 123).

2. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

Borrowings

At the close of business on 30 April 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had (i) outstanding bank borrowings of approximately HK$818 million, all of which were secured by certain of the Enlarged Group's operating concessions, receivables under service concession arrangements, trade receivables and bank deposits, as well as the guarantee by GSE Investment Corporation, Beijing Enterprises Holdings Limited and Beijing Environment; (ii) convertible bonds with principal amount of HK$791 million; and (iii) other borrowings of approximately HK$829 million, of which HK$752 million were guaranteed by Beijing Environment.

Contingent liabilities

As at 30 April 2016, the acceptance of environmental protection completion of the waste incineration plant has not been obtained from the relevant government authorities and the Target Group is still in the process of applying for certain permits, licenses and approvals from various government authorities in relation to its operation. According to the relevant PRC Law, the Target Group may be liable to penalties charged by the relevant government authorities due to (i) the failure to obtain the Pollutant Discharge License from various government authorities or to complete environmental protection completion acceptance with a maximum possible aggregate amount of approximately RMB2,300,000; and (ii) the operation without the Electric Power Business Permit with a maximum possible amount equivalent to five times the amount of illicit gains made, as well as confiscation of the amount of illicit gains made. Nevertheless, as advised by the PRC Legal Adviser, the likelihood of the Target Group to be liable to the penalties is low.

Furthermore, the Group did not have any significant contingent liabilities as at 30 April 2016.

Disclaimer

Save as aforesaid or as otherwised disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than under normal trade bills) or similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities as at the close of business on 30 April 2016.

3. WORKING CAPITAL OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Enlarged Group, the Enlarged Group will have sufficient working capital to meet its present requirements for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Golden State Waste Management Corporation (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the consolidated statements of financial position of the Target Group and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 24 June 2016 (the "Circular") in connection with the Company's proposed acquisition of entire equity interest of the Target Company.

The Target Company is a limited liability company incorporated in the Cayman Islands on 30 September 2005. As at the date of this report, the principal activity of the Target Company is investment holding.

The financial statements of the Target Company for the three years ended 31 December 2013, 2014 and 2015 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

As at the end of the Relevant Periods, the Target Company has direct interest in subsidiaries as set out in Note 1 of Section II below. All companies now comprising the Target Group have adopted 31 December as their financial year end date with the relevant accounting principles applicable to enterprises established in Mainland China (the "PRC GAAP"). Details of the subsidiaries of the Target Group and their statutory auditors during the Relevant Periods are set out in Note 1 of Section II below.

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements of the Target Group (the "Underlying Financial Statements") for the Relevant Periods in accordance with HKFRSs. The Underlying Financial Statements for each of the three years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in Note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Group and the Target Company as at 31 December 2013, 2014 and 2015, and of the consolidated financial performance and cash flows of the Target Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	348,226	318,775	318,574
Cost of sales		(217,024)	(187,020)	(183,261)
Gross profit		131,202	131,755	135,313
Other income and gains, net	*7*	32,435	22,613	30,986
Administrative expenses		(45,092)	(33,516)	(27,523)
Other operating expenses, net		(208)	(2,485)	(16,635)
Finance costs	*8*	(67,269)	(74,851)	(54,112)
PROFIT BEFORE TAX	*9*	51,068	43,516	68,029
Income tax expense	*10*	(15,113)	(15,702)	(18,018)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		35,955	27,814	50,011
Attributable to:				
Owner of the parent company		30,667	23,387	42,418
Non-controlling interests		5,288	4,427	7,593
		35,955	27,814	50,011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	12	431,147	440,287	426,308
Prepaid land premiums	13	26,433	25,873	25,313
Goodwill	14	23,617	23,617	23,617
Operating concessions	15	358,772	350,966	333,420
Receivable under a service concession arrangement	15	598,013	582,843	563,402
Prepayments, deposits and other receivables	19	3,706	2,156	8,257
Total non-current assets		1,441,688	1,425,742	1,380,317
CURRENT ASSETS				
Prepaid land premiums	13	350	560	560
Inventories	17	5,997	7,355	7,799
Receivable under a service concession arrangement	15	8,751	15,170	19,441
Trade receivables	18	32,969	42,630	44,430
Prepayments, deposits and other receivables	19	238,607	292,365	333,757
Pledged deposits	21	21,125	26,196	37,361
Cash and bank balances	21	116,024	168,753	116,554
		423,823	553,029	559,902
Assets of a disposal group classified as held for sale	11	–	–	48,836
Total current assets		423,823	553,029	608,738
CURRENT LIABILITIES				
Trade payables	22	42,017	43,641	32,124
Other payables and accruals	23	495,529	508,752	514,697
Bank and other borrowings	24	199,338	194,142	195,885
Finance lease payables	25	15,124	13,209	–
Income tax payables		180	722	9,090
Other taxes payables		6,578	9,632	9,437
		758,766	770,098	761,233
Liabilities directly associated with assets classified as held for sale	11	–	–	35,621
Total current liabilities		758,766	770,098	796,854
NET CURRENT LIABILITIES		(334,943)	(217,069)	(188,116)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,106,745	1,208,673	1,192,201

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Bank and other borrowings	*24*	538,017	615,000	541,000
Finance lease payables	*25*	15,800	2,591	–
Provision for major overhauls	*26*	1,508	1,928	2,373
Deferred income	*27*	4,850	4,674	8,644
Deferred tax liabilities	*28*	24,845	34,941	40,634
Total non-current liabilities		585,020	659,134	592,651
Net assets		521,725	549,539	599,550
EQUITY				
Equity attributable to the owner of the parent company				
Share capital	*29*	579,336	579,336	579,336
Other deficits	*30(a)(i)*	(110,998)	(87,611)	(45,193)
		468,338	491,725	534,143
Non-controlling interests		53,387	57,814	65,407
Total equity		521,725	549,539	599,550

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owner of the parent company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**PRC reserve funds** *RMB'000* *(note 30(a)(ii))*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2013	579,336	10,891	2,301	(154,857)	437,671	48,099	485,770
Profit for the year and total comprehensive income for the year	–	–	–	30,667	30,667	5,288	35,955
Transfer to PRC reserve funds	–	–	78	(78)	–	–	–
At 31 December 2013 and 1 January 2014	579,336	10,891*	2,379*	(124,268)*	468,338	53,387	521,725
Profit for the year and total comprehensive income for the year	–	–	–	23,387	23,387	4,427	27,814
Dividend to non-controlling interests	–	–	–	–	–	(3,625)	(3,625)
Contribution from non-controlling interests	–	–	–	–	–	3,625	3,625
Transfer to PRC reserve funds	–	–	64	(64)	–	–	–
At 31 December 2014 and 1 January 2015	579,336	10,891*	2,443*	(100,945)*	491,725	57,814	549,539
Profit for the year and total comprehensive income for the year	–	–	–	42,418	42,418	7,593	50,011
Transfer to PRC reserve funds	–	–	2,537	(2,537)	–	–	–
At 31 December 2015	579,336	10,891*	4,980*	(61,064)*	534,143	65,407	599,550

* *These accounts comprise the consolidated other deficits of RMB110,998,000, RMB87,611,000 and RMB45,193,000 in the consolidated statements of financial position as at 31 December 2013, 2014 and 2015, respectively.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2013	2014	2015
		Year ended 31 December		
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		51,068	43,516	68,029
Adjustments for:				
Interest income	7	(642)	(1,210)	(835)
Finance costs	8	67,269	74,851	54,112
Depreciation	9	21,065	22,160	23,798
Amortisation of prepaid land premiums	9	200	350	560
Amortisation of operating concession	9	14,148	16,987	17,546
Provision for major overhauls	9	330	330	330
Government grant	9	–	(176)	(1,413)
Loss on disposal of items of property, plant and equipment	9	11	50	40
		153,449	156,858	162,167
Increase in inventories		(2,126)	(1,358)	(444)
Decrease in receivable under a service concession arrangement		7,858	8,751	15,170
Decrease/(increase) in trade receivables		44,180	(9,661)	(2,919)
Increase in prepayments, deposits and other receivables		(107,823)	(52,535)	(47,817)
Increase/(decrease) in trade payables		(7,442)	1,624	(7,632)
Increase/(decrease) in other payables and accruals		(10,213)	24,460	15,937
Increase in other taxes payables		4,578	3,110	1,688
Cash generated from operations		82,461	131,249	136,150
PRC corporate income tax paid		(96)	(5,064)	(3,957)
Net cash flows from operating activities		82,365	126,185	132,193
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(31,052)	(31,376)	(12,112)
Proceeds from disposal of items of property, plant and equipment		54	26	–
Additions of operating concession		(49,844)	(9,181)	–
Government grant received		4,850	–	5,383
Interest received		642	1,210	835
Increase in pledged deposits		(12,344)	(5,071)	(11,165)
Net cash flows used in investing activities		(87,694)	(44,392)	(17,059)

	Notes	Year ended 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans		25,000	767,142	173,153
Repayment of bank loans		(98,015)	(706,282)	(252,153)
Proceeds received under sales and leaseback classified as finance lease		28,000	–	–
Capital element of finance lease rental payments		(10,311)	(15,124)	(15,800)
Interest element of finance lease rental payments		(2,931)	(4,280)	(3,365)
Advance from the immediate holding company		52,088	1,591	27,435
Loan interest paid		(61,319)	(72,111)	(51,341)
Net cash flows used in financing activities		(67,488)	(29,064)	(122,071)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(72,817)	52,729	(6,937)
Cash and cash equivalents at beginning of year		188,841	116,024	168,753
CASH AND CASH EQUIVALENTS AT END OF YEAR		116,024	168,753	161,816
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances other than time deposits	*21*	125,149	194,949	123,795
Time deposits	*21*	12,000	–	30,120
Less: Pledged deposits	*21*	(21,125)	(26,196)	(37,361)
Cash and cash equivalents as stated in the consolidated statements of financial position		116,024	168,753	116,554
Add: Cash and bank balances attributable to the disposal group	*11*	–	–	45,262
Cash and cash equivalents as stated in the consolidated statements of cash flows		116,024	168,753	161,816

STATEMENT OF FINANCIAL POSITION

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Investments in subsidiaries	*16*	519,224	539,599	539,599
CURRENT ASSETS				
Loans to subsidiaries	*16*	253,222	151,296	168,985
Other receivables	*19*	234,997	243,252	288,638
Cash and bank balances	*21*	15,386	77,540	48,221
Total current assets		503,605	472,088	505,844
CURRENT LIABILITIES				
Other payables and accruals	*23*	447,407	448,224	475,669
Bank borrowings	*24*	114,621	110,142	116,885
Total current liabilities		562,028	558,366	592,554
NET CURRENT LIABILITIES		(58,423)	(86,278)	(86,710)
TOTAL ASSETS LESS CURRENT LIABILITIES		460,801	453,321	452,889
Net assets		460,801	453,321	452,889
EQUITY				
Share capital	*29*	579,336	579,336	579,336
Other deficits	*30(b)*	(118,535)	(126,015)	(126,447)
Total equity		460,801	453,321	452,889

II. NOTES TO FINANCIAL INFORMATION

1. Corporate and Group Information

Golden State Waste Management Corporation (the "Target Company") is a limited liability company established in the Cayman Islands on 30 September 2005. The registered office of the Target Company is located at the office of Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, PO Box 2804, George Town, Grand Cayman, Cayman Islands.

During the Relevant Periods, the Target Company and its subsidiaries (collectively referred to as the "Target Group") were principally involved in the solid waste and hazardous waste treatment business which comprises the construction and operation of waste incineration plants, waste treatment and the sales of electricity generated from waste incineration.

In the opinion of the directors of the Target Company, the immediate holding company is GSE Investment Corporation, which is established in Cayman Islands with limited liability, and the ultimate holding company of the Target Company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited*), which is a state-owned enterprise established in the People's Republic of China (the "PRC") and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

Information about subsidiaries

Particulars of the Target Company's subsidiaries are as follows:

Name	Place of registration and business	Paid-up capital	Percentage of equity attributable to the Target Company during the Relevant Periods	Principal activities
北京高安屯垃圾焚燒有限公司 ("Gaoantun")#	The PRC/ Mainland China	2013: RMB250,000,000 2014: RMB274,000,000 2015: RMB274,000,000	84.9%	Solid waste treatment and power generation
張家港金州再生能源有限公司 ("Zhangjiagang")#	The PRC/ Mainland China	2013: RMB282,000,000 2014: RMB282,000,000 2015: RMB282,000,000	100%	Solid waste treatment and power generation
北京金州安潔廢物處理有限公司 ("Anjie")#@	The PRC/ Mainland China	2013: RMB50,253,200 2014: RMB81,303,000 2015: RMB81,303,000	95.53%	Hazardous waste treatment

\# *The statutory financial statements of these subsidiaries for each of the years ended 31 December 2013, 2014 and 2015 were audited by 北京正則通會計師事務所(普通合夥)(Beijing Zhengzetong Certified Public Accountants), certified public accountants registered in the PRC.*

@ *This subsidiary was included in assets of a disposal group classified as held for sale as at 31 December 2015 (note 11).*

All of the above subsidiaries are directly held by the Target Company.

2. Basis of Presentation and Preparation

Basis of presentation

Despite the Target Group had net current liabilities of RMB334,943,000, RMB217,069,000 and RMB188,116,000 and the Target Company had net current liabilities of RMB58,423,000, RMB86,278,000 and RMB86,710,000 as at 31 December 2013, 2014 and 2015, respectively, the directors of the Target Company consider that the Target Group will have adequate funds available to enable it to operate as a going concern, as Beijing Enterprises Holdings Limited, ("BEHL", an intermediate holding company) has agreed to provide continual financial support and adequate funds to the Target Group to enable it to meet its liabilities as and when they fall due. In addition, the immediate holding company has undertaken not to demand repayment of the amount due to it until such time when the Target Group is in a position to repay without impairing its liquidity and financial position.

In addition, as disclosed in notes 12 and 15 of the Financial Information, the final acceptance of the construction of the Zhangjiagang Plant (as defined in note 12(b) and certain permits of the Facility of Gaoantun (as defined in note 15)) have not been obtained from the relevant government authorities and the Target Group is still in the process of applying such final acceptance and permits up to the date of approval of the Financial Information. Since the operating rights were granted to the Target Group under the service concession agreements and the waste incineration plants were constructed based on the requirements stipulated in the agreements and the relevant law and regulations, the directors of the Target Group are of the opinion that there are no legal barriers which prevent it from obtaining the final acceptance of construction and the related permits and it is unlikely for the Target Group to incur any extra costs or administrative sanctions in respect of the matters. Accordingly, the directors of the Target Group are of the view that the Target Group can continue its business on a going concern basis without being affected by the aforesaid matters.

Should the Target Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Target Group to continue in business as a going concern.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for a disposal group held for sale which is stated at the lower of their carrying amounts and fair value less costs to sell as further explained in note 4. The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Target Group and the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Target Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

3. Issued but not yet Effective Hong Kong Financial Reporting Standards

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]

Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*

2 *Effective for annual periods beginning on or after 1 January 2018*

3 *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Group*

4 *No mandatory effective date is determined but is available for early adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Group is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Group expects to adopt HKFRS 9 from 1 January 2018. The Target Group is currently assessing the impact of the standard.

(b) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Target Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Target Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Target Group's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Group upon adoption on 1 January 2016 as the Target Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. Summary of Significant Accounting Policies

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a holding company of the Target Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Target Group or to the holding company of the Target Group.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Target Group and liabilities assumed by the Target Group to the former owners of the acquiree. For each business combination, the Target Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Target Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Target Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Target Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Target Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Target Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Disposal group held for sale

Disposal group is classified as held for sale if its carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Target Group retains a non-controlling interest in its former subsidiary after the sale.

Disposal group (other than financial assets) classified as held for sale is measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Disposal group held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building	30 years
Leasehold improvements	5 years
Plant and machinery	5 to 20 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 to 5 years

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Service concession arrangement

Concession arrangement is recognised in accordance with HK(IFRIC) – Int 12 *Service Concession Arrangements*.

HK(IFRIC) – Int 12 is applicable to concession arrangement comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Target Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Target Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Target Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Target Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Target Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Target Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Target Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain solid waste treatment and power generation plant and hazardous waste treatment plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste treatment and power generation plant, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession representing the right to operate solid waste treatment and power generation plant in the PRC is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Target Group of 25 to 30 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, inventories and other taxes recoverable), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "other income and gains, net" in profit or loss. The loss arising from impairment is recognised in "other operating expenses, net" in profit or loss.

Impairment

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Target Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses, net" in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects that rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the electricity sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Target Group;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction contracts

Contract revenue comprises the construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of solid waste treatment and power generation plant under the terms of BOT contract (service concession agreement) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Pension schemes

The employees of the Target Group are required to participate in a central pension scheme operated by the local municipal government in Mainland China. The Target Group is required to contribute a certain percentage of the covered payroll to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currency

The Financial Information is presented in Renminbi, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

5. Significant Accounting Judgements and Estimates

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the report amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Percentage of completion of construction work

The Target Group recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Target Group's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Target Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

Classification between operating concession and receivable under a service concession arrangement

As explained in note 4 to the Financial Information, if the Target Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Target Group to make an estimate of a number of factors, which include, *inter alia*, the expected future solid waste treatment volume of the solid waste treatment and power generation plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 15 to the Financial Information.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of solid waste treatment and power generation plant and hazardous waste treatment plant under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

(i) the peer firm must be in the field of the construction of infrastructure, majoring in solid waste treatment and power generation facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Provision for major overhauls of solid waste treatment and power generation plant and hazardous waste treatment to a specified level of serviceability

The Target Group has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Target Group (a) to maintain the solid waste treatment and power generation plant and hazardous waste treatment plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Target Group to estimate the expected future cash outlays on major overhauls of the solid waste treatment and power generation plant and hazardous waste treatment plant over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 26 to the Financial Information.

Useful lives and residual values of property, plant and equipment and prepaid land premiums

The Target Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Target Group's property, plant and equipment and prepaid land premiums. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and prepaid land premiums of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. Further details of which are set out in notes 12 and 13 to the Financial Information.

Impairment of property, plant and equipment and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 4 to the Financial Information. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Target Group's results of operations or financial position.

Impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables

The policy for provision for impairment of receivables under service concession arrangement, trade receivables and deposits and other receivables of the Target Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details of which are set out in notes 15, 18 and 19 to the Financial Information.

Current tax and deferred tax

The Target Group is subject to income taxes in Mainland China. The Target Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax liabilities relating to certain deductible temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax liabilities and deferred tax in the periods in which such estimates have been changed. Further details of which are set out in note 28 to the Financial Information.

6. Operating Segment Information

In the opinion of the directors of the Target Company, all revenue and operating results of the Target Group are all derived from the solid waste treatment and power generation and hazardous waste treatment services from the PRC. Therefore, no analysis by operating segment and geographical segment is presented.

The non-current assets of the Target Group are all located in the PRC.

During the Relevant Periods, the Target Group had transactions with five external customers which contributed over 10% of the Target Group's total revenue for the Relevant Periods. A summary of revenue from the major external customers is set out below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	114,639	116,234	114,665
Customer B	87,756	87,092	78,141
Customer C[#]	49,844	*	*
Customer D	*	35,239	41,883
Customer E	*	*	33,013

* *Less than 10% of the Target Group's total revenue.*

\# *The amount represented the deemed construction revenue from provision of construction services to a government authority recognised according to HK(IFRIC) – Int 12 Service Concession Arrangements.*

7. Revenue, Other Income and Gains, Net

Revenue represents (1) an appropriate proportion of contract revenue of construction contracts relating to solid waste and hazardous waste treatment, net of value-added tax and government surcharges; (2) sales of electricity, net of value-added tax and government surcharges; (3) income from solid waste treatment, net of value-added tax and government surcharges; (4) income from hazardous waste treatment services and (5) the imputed interest income on the service concession arrangement.

An analysis of the Target Group's revenue, other income and gains, net, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Solid waste treatment services*	113,126	116,152	115,224
Hazardous waste treatment services	39,322	41,969	46,802
Sale of electricity	145,934	151,473	156,548
Construction services	49,844	9,181	–
	348,226	318,775	318,574
Other income			
Bank interest income	642	1,210	835
Refund of value-added tax	15,048	20,529	29,208
Write-back of other payable	2,864	862	–
Government grant[&]	–	–	883
Others	479	12	60
	19,033	22,613	30,986
Gains, net			
Foreign exchange differences, net	13,402	–	–
Other income and gain, net	32,435	22,613	30,986

* *Imputed interest income under service concession arrangement during the years ended 31 December 2013, 2014 and 2015 amounting to RMB38,882,000, RMB37,989,000, and RMB31,570,000, respectively, were included in the revenue derived from solid waste treatment services.*

& *The government grant recognised by the Target Group during the year ended 31 December 2015 represented subsidies received from certain government authorities as incentives to promote and accelerate development in the local province.*

8. Finance Costs

An analysis of finance costs is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loans	62,772	59,981	48,966
Finance lease payables	2,931	4,280	3,365
Loan from a fellow subsidiary	–	–	1,666
Total interest expenses	65,703	64,261	53,997
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 26)*	66	90	115
Amortisation of ancillary costs incurred in connection with the arrangement of the bank loan	1,500	10,500	–
Total finance costs	67,269	74,851	54,112

9. Profit Before Tax

The Target Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of solid waste treatment services rendered		109,427	104,871	103,438
Cost of hazardous waste treatment services rendered		32,795	36,237	38,993
Cost of construction services		40,373	7,437	–
Depreciation@	*12*	21,065	22,160	23,798
Amortisation of prepaid land premiums*	*13*	200	350	560
Amortisation of operating concession*	*15*	14,148	16,987	17,546
Provision for major overhauls*	*26*	330	330	330
Government grant#		–	(176)	(1,413)
Auditor's remuneration		41	41	51
Loss on disposal of items of property, plant and equipment		11	50	40
Employee benefit expenses:				
Wages and salaries		33,221	37,346	36,146
Pension scheme contribution		6,316	9,392	9,572
		39,537	46,738	45,718
Foreign exchange differences, net		(13,403)	2,406	16,324

* *These items are included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

@ *RMB19,751,000, RMB20,984,000 and RMB22,924,000 of the depreciation during the years ended 31 December 2013, 2014 and 2015, respectively, are included in "Cost of sales" in the statements of profits or loss and other comprehensive income.*

\# *The government grant recognised during the Relevant Periods represented subsidies received from certain government authorities in respect of the fulfilment of certain specific duties by the Target Group under the relevant service concession agreement, and RMB176,000 and RMB530,000 of the government grant during the years ended 31 December 2014 and 2015, respectively, are included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

10. Income Tax Expense

No provision for Hong Kong profits tax has been made during the Relevant Periods as the Target Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The PRC corporate income tax provision in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, certain subsidiaries of the Target Group enjoys PRC corporate income tax exemptions for the first three years since its fiscal year when it started to generate waste treatment revenue (which is 2009), and is entitled to another 50% tax reductions for the succeeding three years (i.e. from 2012 to 2014), by reason that these subsidiaries of the Target Group are engaged in the operations of solid waste treatment business.

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China	3,634	5,606	12,325
Deferred *(note 28)*	11,479	10,096	5,693
Total tax charge for the year	15,113	15,702	18,018

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory rate to the tax expense at the effective tax, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	51,068	43,516	68,029
Tax expenses at the statutory rate of 25%	12,767	10,879	17,007
Effect of withholding tax on interest income from intercompany loans	3,452	2,844	1,559
Effect of withholding tax on dividend declared by the PRC subsidiaries	–	2,038	–
Tax concession enjoyed	(454)	(973)	–
Income not subject to tax	(7,936)	(5,344)	(4,138)
Expenses not deductible for tax	5,607	4,898	3,384
Tax losses not recognised	1,677	1,360	206
Tax charge at the Target Group's effective rate for the Relevant Periods	15,113	15,702	18,018

11. Assets and Liabilities of a Disposal Group Classified as Held For Sale

During the year ended 31 December 2015, Beijing Enterprises Holdings Limited ("BEHL", an intermediate holding company of the Target Company), planned to sell the entire equity interest of the Target Group to Beijing Development (Hong Kong) Limited ("BDHK" or the "Company", a fellow subsidiary of the Target Company), but the management of BEHL intended to exclude 北京金州安潔廢物處理有限公司 ("Anjie", a 95.53% owned subsidiary of the Target Group) from this transaction, and the equity interests of Anjie held by the Target Group was expected to be transferred to BEHL prior to the completion of the proposed sales transaction. Accordingly, Anjie was classified as a disposal group held for sale of the Target Group as at 31 December 2015.

Subsequent to the reporting periods, on 31 March 2016 and 17 May 2016, the Target Company has entered into a memorandum of trust and an amended and restated memorandum of trust with BEHL, an intermediate holding company, pursuant to which, the Target Company agrees to hold the equity interest in Anjie on behalf of BEHL effective from 1 January 2016, details of which as set out in note 35 to the Financial Information.

The major classes of assets and liabilities of Anjie classified as held for sale as at 31 December 2015 are as follows:

		2015
	Notes	*RMB'000*
Assets		
Property, plant and equipment	*12*	2,253
Trade receivables		1,119
Prepayments, deposits and other receivables		202
Cash and cash equivalents		45,262
Assets of a disposal group classified as held for sale		48,836
Liabilities		
Trade and bills payables		3,885
Other payables and accruals		20,767
Amount due to a fellow subsidiary		9,131
Other tax payables		1,838
Liabilities directly associated with the assets classified as held for sale		35,621
Net assets directly associated with disposal group classified as held for sale		13,215

The assets of Anjie included an operating concession with an original cost of RMB97,307,000 *(note 15)* and a prepaid land premium of RMB13,000,000 *(note 13(b))*, which were fully impaired in prior years, as the hazardous waste treatment plant held by Anjie does not fulfill the environmental requirement as set out by the government authority and was suspended from normal operation.

The Company's investment cost in Anjie with an aggregate original cost of RMB80,608,000, which were fully impaired in prior years and during the year ended 31 December 2014, was also reclassified to assets of a disposal group classified as held for sales in 2015 *(note 16(b))*.

12. Property, Plant and Equipment

	Building	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(notes (a), (b))		*(notes (a), (b))*				
Year ended 31 December 2015							
At 1 January 2015:							
Cost	142,053	980	382,906	2,917	9,555	–	538,411
Accumulated depreciation	(19,987)	(424)	(68,999)	(2,375)	(6,339)	–	(98,124)
Net carrying amount	122,066	556	313,907	542	3,216	–	440,287
Net carrying amount:							
At 1 January 2015	122,066	556	313,907	542	3,216	–	440,287
Additions	–	–	8	126	1,097	10,881	12,112
Depreciation provided during the year *(note 9)*	(4,531)	(196)	(17,385)	(212)	(1,474)	–	(23,798)
Disposals	–	–	–	(16)	(24)	–	(40)
Transfer from construction in progress	994	–	9,000	–	–	(9,994)	–
Transfer to a disposal group classified as held for sale *(note 11)*	–	–	–	(40)	(2,213)	–	(2,253)
At 31 December 2015	118,529	360	305,530	400	602	887	426,308
At 31 December 2015:							
Cost	143,047	980	391,914	2,251	3,774	887	542,853
Accumulated depreciation	(24,518)	(620)	(86,384)	(1,851)	(3,172)	–	(116,545)
Net carrying amount	118,529	360	305,530	400	602	887	426,308
Year ended 31 December 2014							
At 1 January 2014:							
Cost	136,081	980	325,132	2,800	9,062	33,707	507,762
Accumulated depreciation	(15,585)	(228)	(53,214)	(2,054)	(5,534)	–	(76,615)
Net carrying amount	120,496	752	271,918	746	3,528	33,707	431,147
Net carrying amount:							
At 1 January 2014	120,496	752	271,918	746	3,528	33,707	431,147
Additions	–	–	73	123	1,214	29,966	31,376
Depreciation provided during the year *(note 9)*	(4,402)	(196)	(15,785)	(323)	(1,454)	–	(22,160)
Disposals	–	–	–	(4)	(72)	–	(76)
Transfer from construction in progress	5,972	–	57,701	–	–	(63,673)	–
At 31 December 2014	122,066	556	313,907	542	3,216	–	440,287
At 31 December 2014:							
Cost	142,053	980	382,906	2,917	9,555	–	538,411
Accumulated depreciation	(19,987)	(424)	(68,999)	(2,375)	(6,339)	–	(98,124)
Net carrying amount	122,066	556	313,907	542	3,216	–	440,287

	Building RMB'000 (notes (a), (b))	Leasehold improvements RMB'000	Plant and machinery RMB'000 (notes (a), (b))	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2013							
At 1 January 2013:							
Cost	136,081	980	325,112	2,769	8,247	8,416	481,605
Accumulated depreciation	(11,274)	(32)	(38,427)	(1,746)	(4,640)	–	(56,119)
Net carrying amount	124,807	948	286,685	1,023	3,607	8,416	425,486
Net carrying amount:							
At 1 January 2013	124,807	948	286,685	1,023	3,607	8,416	425,486
Additions	–	–	4,281	147	1,333	25,291	31,052
Depreciation provided during the year *(note 9)*	(4,311)	(196)	(14,787)	(412)	(1,359)	–	(21,065)
Disposals	–	–	–	(12)	(53)	–	(65)
Net effect of sales and lease back arrangement	–	–	(4,261)	–	–	–	(4,261)
At 31 December 2013	120,496	752	271,918	746	3,528	33,707	431,147
At 31 December 2013:							
Cost	136,081	980	325,132	2,800	9,062	33,707	507,762
Accumulated depreciation	(15,585)	(228)	(53,214)	(2,054)	(5,534)	–	(76,615)
Net carrying amount	120,496	752	271,918	746	3,528	33,707	431,147

Notes:

(a) At 31 December 2013, 2014 and 2015, certain buildings and plant and machinery situated in Mainland China with a then aggregate net carrying amount of RMB49,112,000, RMB114,112,000 and RMB65,000,000, respectively, were pledged to secure certain loans granted to the Target Group *(note 24(b)(i))*.

(b) Included in the property, plant and equipment was a solid waste treatment and power generation plant in Suzhou, Jiangsu province, the PRC (the "Zhangjiagang Plant") with an aggregate amount of RMB427,034,000, RMB436,614,000 and RMB425,455,000 as at 31 December 2013, 2014 and 2015, respectively, which was under a service concession arrangement with a government authority in Zhangjiagang, the PRC, on a Build-Own-Operate basis, for a period of 30 years commencing from 2014.

At 31 December 2015, the Target Group was in the process of applying for the change of registration of the title certificates with respect to the buildings of the Zhangjiagang Plant to which the Target Group's service concession arrangement relates. The directors of the Target Group are of the opinion that the Target Group is entitled to the lawful and valid occupation or use of the buildings and that the Target Group would not have any legal barriers in obtaining the title certificates.

Moreover, at 31 December 2015, the Target Group was in the process of applying for the completion of final acceptance of the construction of the Zhangjiagang Plant from the relevant government authorities. The directors of the Target Group are of the opinion that the Target Group expected to have no legal barriers in completing of final acceptance of the Zhangjiagang Plant or subject to any administrative sanctions and the Target Group is legitimated to operate the Zhangjiagang Plant.

(c) At 31 December 2013 and 2014, certain plant and machinery situated in Mainland China with a then aggregate net carrying amount of RMB23,111,000 and RMB18,667,000, respectively, were held under finance leases arrangement *(note 25)*. The finance lease payables were fully repaid in 2015 and the pledges were released accordingly.

13. Prepaid Land Premiums

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at 1 January	26,983	26,783	26,433
Amortisation provided during the year *(note 9)*	(200)	(350)	(560)
Carrying amount at 31 December	26,783	26,433	25,873
Portion classified as current assets	(350)	(560)	(560)
Non-current portion	26,433	25,873	25,313

Notes:

(a) At 31 December 2013 and 2014, a prepaid land lease premium situated in Mainland China with a then aggregate net carrying amount of RMB26,783,000 and RMB26,433,000, respectively, were pledged to secure a bank loan granted to the Target Group *(note 24(b)(ii))*. The loan was fully repaid in 2015 and the pledge was released accordingly.

(b) As at 31 December 2013 and 2014, a prepaid land premium with a cost of RMB13,000,000 in respect of the Beijing Anjie hazardous waste treatment plant, was fully impaired in prior years as the plant does not fulfill the environmental requirement as set out by the government authority and was suspended from normal operation. The prepaid land premium was reclassified to assets of a disposal group classified as held for sale in 2015, details of which are set out in note 11 to the Financial Information.

14. Goodwill

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Cost	26,552	26,552	23,617
Less: Accumulated impairment	(2,935)	(2,935)	–
Net carrying amount	23,617	23,617	23,617

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisition of subsidiaries has been allocated to the relevant business units of the solid waste treatment segment of the Target Group for impairment testing.

The recoverable amount of the relevant business units in the solid waste treatment segment has been determined based on a value-in-use calculation using cash flow projections based on financial forecast approved by senior management covering the service concession periods and based on the assumption that sizes of the operations remain constant perpetually. The discount rate applied to the cash flow projections is 10.4% as at the end of the Relevant Periods, respectively. The growth rate used to extrapolate the cash flows beyond the service concession periods is 2.5%.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Target Group's goodwill of RMB23,617,000 arising from the acquisition of Gaoantun as at the end of the Relevant Periods.

Assumptions were used in the value in use calculation of the relevant business units in the solid waste treatment segment for 31 December 2013, 2014 and 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(i) Budgeted turnover – It is based on the projected solid waste treatment volume and the latest solid waste treatment and electricity selling prices up to the date of the forecast.

(ii) Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

(iii) Business environment – There have been no major changes in the existing political, legal and economic conditions in Mainland China. Under the service concession arrangements, the Target Group has been granted with priority for renewal of operating rights of its solid waste incineration plants. Given its performance record and its relationship with the grantors, the Target Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of solid waste incineration plants shall be renewed upon expiry, and therefore the size of the solid waste treatment operation is expected to remain constant perpetually which enables the Target Group to generate income perpetually.

(iv) Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

An impairment provision of RMB2,935,000 was recognised in prior years with respect to the goodwill arising from the acquisition of Anjie, as the directors of the Target Company were of the opinion that the goodwill shall be fully impaired after the assessment of the recoverable amount of the relevant cash generating unit to which the goodwill relates. Anjie was classified as a disposal group held for sale as at 31 December 2015 *(note 11)*.

15. Service Concession Arrangements

The Target Group has entered into service concession arrangements with governmental authorities (the "Grantors") in Mainland China on a BOT basis in respect of the construction and operation of a solid waste treatment and power generation plant and a hazardous waste treatment plant (the "Facilities"). The service concession arrangements involve the Target Group as an operator in (i) constructing the Facilities for that arrangement on a BOT basis; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the Grantors for a period of 25 to 30 years (the "Service Concession Period"), and the Target Group will be paid by the Grantors or the relevant governmental authority for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Target Group is generally entitled to use all the property, plant and equipment of the Facilities. However, the Grantors retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Period. The service concession arrangements are governed by contracts entered into between the Target Group and the Grantors in Mainland China that set out, *inter alia*, performance standards, mechanisms for adjusting price for the services rendered by the Target Group, specific obligations levied on the Target Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangements are set out as follows:

Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity *(tonnes/day)*	Service concession period
Beijing Gaoantun waste treatment and power generation plant project	Chaoyang district, Beijing, the PRC	Beijing (Chaoyang district) Municipal Commission of City Administration and Environment	BOT	1,600	30 years from 2005 to 2034
Beijing Anjie hazardous waste treatment plant project*	Chaoyang district, Beijing, the PRC	Beijing (Chaoyang district) Municipal Commission of City Administration and Environment	BOT	N/A	25 years from 2004 to 2029

* *Classified as a disposal group held for sale as at 31 December 2015 (note 11)*

Pursuant to the service concession agreements entered into by the Target Group, the Target Group is granted with the right to use the land and the property, plant and equipment of the Facilities, which are registered under the name of the Target Group, during the Service Concession Period, but the Target Group is required to return the property, plant and equipment to the Grantors at a specified level of serviceability at the end of the respective Service Concession Period under the BOT arrangement. At 31 December 2015, the Target Group was in the process of applying for the change of registration of the title certificates with respect to the buildings of the Facility of Anjie to which the Target Group's service concession arrangement relates. The directors of the Target Group are of the opinion that the Target Group is entitled to the lawful and valid occupation or use of the buildings and that the Target Group would not have any legal barriers in obtaining the title certificates.

Moreover, the Target Group was in the process of applying for the certain permits of the Facility of Gaoantun from the relevant government authorities up to date of approval of the Financial Information. The directors of the Target Group are of the opinion that the Target Group is legitimated to operate the Facility of Gaoantun and that the Target Group expects to have no legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Target Group to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangement" set out in note 4 to the Financial Information, the considerations paid by the Target Group for service concession arrangements are accounted for as a combination of both intangible asset (operating concessions) and a financial asset (receivable under a service concession arrangement).

The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivable under a service concession arrangement) with respect to the Target Group's service concession arrangements:

Operating concessions

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	474,274	524,118	533,299
Accumulated amortisation and impairment	(151,198)	(165,346)	(182,333)
Net carrying amount	323,076	358,772	350,966
Net carrying amount:			
At 1 January	323,076	358,772	350,966
Additions	49,844	9,181	–
Amortisation provided during the year *(note 9)*	(14,148)	(16,987)	(17,546)
At 31 December	358,772	350,966	333,420
At 31 December:			
Cost	524,118	533,299	435,992
Accumulated amortisation and impairment	(165,346)	(182,333)	(102,572)
Net carrying amount	358,772	350,966	333,420

As at 31 December 2013 and 2014, an operating concession of RMB97,307,000 in respect of the Beijing Anjie hazardous waste treatment plant, was fully impaired in prior years as the plant does not fulfill the environmental requirement as set out by the government authority and was suspended from normal operation. The operating concession was reclassified to assets of a disposal group classified as held for sale in 2015, details of which are set out in note 11 to the Financial Information.

Receivable under a service concession arrangement

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	606,764	598,013	582,843
Portion classified as current assets	(8,751)	(15,170)	(19,441)
Non-current portion	598,013	582,843	563,402

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of the Target Group's solid waste treatment and power generation operation. The directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. The Target Group does not hold any collateral or other credit enhancements over this balance.

At 31 December 2013, 2014 and 2015, certain of the solid waste treatment and power generation concession right of Gaoantun (comprising (i) operating concession of RMB358,772,000, RMB350,966,000 and RMB333,420,000, respectively; and (ii) receivable under a service concession arrangement of RMB606,764,000, RMB598,013,000 and RMB582,843,000, respectively) were pledged to secure bank loans granted to the Target Group *(note 24(b)(iii))*.

16. Investments in Subsidiaries

	Notes	2013 RMB'000	2014 RMB'000	2015 RMB'000
Unlisted shares or investments, at cost		568,782	620,207	539,599
Less: Accumulated impairment	*(b)*	(49,558)	(80,608)	–
		519,224	539,599	539,599
Due from subsidiaries, included in prepayments, deposits and other receivables	*(c), 19*	6,064	5,005	6,874
Loans to subsidiaries	*(d)*	253,222	151,296	168,985
		259,286	156,301	175,859
Total interests in subsidiaries		778,510	695,900	715,458

Notes:

(a) Particulars of the principal subsidiaries as at the end of the Relevant Periods are disclosed in note 1 to the Financial Information.

(b) An impairment provision of RMB49,558,000 was recognised in profit or loss in the prior years and RMB31,050,000 was recognised in profit or loss during the year ended 31 December 2014 with respect to the investment cost in Anjie, as the directors of the Target Company are of the opinion that the investment cost shall be fully impaired after the assessment of the recoverable amount of the relevant investee to which the investment cost relates. The investment cost in Anjie was reclassified to assets of a disposal group classified as held for sale in 2015, details of which are set out in note 11 to the Financial Information.

(c) The amounts due from subsidiaries are unsecured, interest-free and have no fixed term of repayment.

(d) The loans advanced to subsidiaries are unsecured, bear interests at fixed rate of 8% per annum, denominated in USD and repayable on demand.

(e) Partly-owned subsidiaries with material non-controlling interests

The following tables illustrate the summarised financial information of the subsidiary that has material non-controlling interests. The amounts disclosed are before any inter-company elimination:

	2013	2014	2015
Percentage of equity interests held by non-controlling interests:			
Gaoantun	15.1%	15.1%	15.1%

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year allocated to non-controlling interests	5,337	4,688	7,462
Dividends paid to non-controlling interests	–	3,625	–
Accumulated balances of non-controlling interests at the reporting dates	53,235	57,923	65,385
Revenue	252,968	213,511	196,876
Total expenses	(217,620)	(182,462)	(147,460)
Profit for the year	35,348	31,049	49,416
Total comprehensive income for the year	35,348	31,049	49,416
Current assets	142,130	164,458	203,344
Non-current assets	958,600	935,122	897,675
Current liabilities	(220,960)	(116,439)	(124,534)
Non-current liabilities	(527,220)	(599,543)	(543,470)
Net cash flows from operating activities	139,711	65,328	132,846
Net cash flows used in investing activities	(55,631)	(8,882)	(13,989)
Net cash flows used in financing activities	(69,872)	(95,846)	(106,444)
Net increase/(decrease) in cash and cash equivalents	14,208	(39,400)	12,413

17. Inventories

Inventories represented fuels and consumables used for daily waste treatment operation and spare parts used for daily maintenances of waste treatment plant managed by the Target Group.

18. Trade Receivables

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	32,969	42,630	44,430

Notes:

(a) The Target Group's trade receivables arise from the provision of solid waste treatment services and sales of electricity. The Target Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months. The Target Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing and the Target Group does not hold any collateral or other credit enhancements over its trade receivable balances.

(b) An aged analysis of trade receivables as at the end of the Relevant Periods, based on the invoice date and net of impairment, is as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	30,010	32,943	37,410
4 to 6 months	1,755	4,124	4,745
7 to 12 months	623	4,257	632
Over 1 year	581	1,306	1,643
	32,969	42,630	44,430

(c) An aged analysis of trade receivables as at the end of each of the Relevant Periods, that are neither individually nor collectively considered to be impaired is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	19,630	24,081	30,512
Past due but not impaired:			
Within 3 months	10,380	8,862	6,898
4 to 6 months	1,755	4,124	4,745
7 to 12 months	623	4,257	632
Over 1 year	581	1,306	1,643
	32,969	42,630	44,430

Trade receivables that were neither past due nor impaired related to the customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to customers that have a good track record with the Target Group. Based on the past experience, the directors of the Target Company are of the opinion that no provision for impairments is necessary of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There was no provision for impairment of trade receivables during the Relevant Periods.

(d) As at 31 December 2013, 2014 and 2015, the trade receivables of RMB21,568,000, RMB9,457,000 and RMB5,636,000, respectively, arises from the provision of solid waste treatment services and sales of electricity are pledged to secure bank loans granted to the Target Group *(note 24(b)(ix))*.

19. Prepayments, Deposits and Other Receivables

		Target Group			Target Company		
		2013	2014	2015	2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments		6,353	4,302	13,669	–	–	–
Deposits		2,838	2,821	150	–	–	–
Other receivables		3,636	5,664	4,471	–	–	–
Due from subsidiaries	*16*	–	–	–	6,064	5,005	6,874
Due from fellow subsidiaries	*20*	229,486	281,734	323,724	228,933	238,247	281,764
		242,313	294,521	342,014	234,997	243,252	288,638
Portion classified as current assets		(238,607)	(292,365)	(333,757)	(234,997)	(243,252)	(288,638)
Non-current portion		3,706	2,156	8,257	–	–	–

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. Balances with the Immediate Holding Company and fellow Subsidiaries

The balances with the immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed term of repayable.

21. Pledged Deposits and Cash and Cash Equivalents

		Target Group			Target Company		
		2013	**2014**	**2015**	**2013**	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances other than time deposits							
Placed in banks	*(a), (b)*	125,149	194,949	123,660	15,386	77,540	48,221
Placed in a financial institution	*(a), (c)*	–	–	135	–	–	–
		125,149	194,949	123,795	15,386	77,540	48,221
Time deposits placed in banks	*(a), (b)*	12,000	–	30,120	–	–	–
		137,149	194,949	153,915	15,386	77,540	48,221
Less: Pledged deposits placed in banks	*(d)*	(21,125)	(26,196)	(37,361)	–	–	–
Cash and cash equivalents		116,024	168,753	116,554	15,386	77,540	48,221

Notes:

(a) As at 31 December 2013, 2014 and 2015, the total cash and bank balances of the Target Group denominated in RMB amounted to RMB100,638,000, RMB91,213,000 and RMB68,333,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for period of three months depending on the immediate cash requirements of the Target Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

(c) The bank balances are placed in an authorised financial institution under China Banking Regulatory Commission which is also a fellow subsidiary of the Target Company.

(d) The Target Group's pledged deposits as at 31 December 2013, 2014 and 2015 included bank deposits (including time deposits) of RMB20,820,000, RMB25,891,000 and RMB37,056,000, respectively, pledged to banks to secure banking facilities granted to the Target Group, which could only be applied on construction of solid waste treatment and power generation plants undertaken by the Target Group *(note 24(b)(viii))*.

The Target Group's pledged deposits as at 31 December 2013, 2014 and 2015 included a bank deposit of RMB305,000 pledged to the government authority to obtain the permission for the construction of solid waste treatment and power generation plant.

22. Trade Payables

The trade payables are non-interest-bearing and normally settled within one to six months. An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	17,879	22,963	8,115
3 to 6 months	668	4,903	977
6 to 12 months	11,989	10,113	5,718
Over 1 year	11,481	5,662	17,314
	42,017	43,641	32,124

Included in the trade payables of RMB2,293,000 as at 31 December 2013 are due to the non-controlling interest which is repayable within one year, and represents credit terms similar to those offered by the non-controlling interest to its major customers.

23. Other Payables and Accruals

		Target Group			Target Company		
		2013	2014	2015	2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables		28,260	16,952	4,333	826	29	6
Accruals		10,830	15,936	10,952	–	–	–
Due to the immediate holding company	*20*	446,550	448,141	475,576	446,550	448,141	475,576
Due to fellow subsidiaries	*20*	9,889	27,723	23,836	31	54	87
		495,529	508,752	514,697	447,407	448,224	475,669

Other payables are non-interest-bearing and have an average term of three months in general.

24. Bank and Other Borrowings

		Targe Group			Target Company		
		2013	2014	2015	2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, secured	*(b), (c)*	747,855	809,142	694,885	114,621	110,142	116,885
Less: Unamortised ancillary costs incurred in connection with the arrangement of the bank loan		(10,500)	–	–	–	–	–
		737,355	809,142	694,885	114,621	110,142	116,885
Other loan from a fellow subsidiary, unsecured	*(d)*	–	–	42,000	–	–	–
Total bank and other borrowings		737,355	809,142	736,885	114,621	110,142	116,885
Analysed into:							
Bank loans repayable:							
On demand		10,000	–	–	–	–	–
Within one year		190,838	194,142	180,885	114,621	110,142	116,885
In the second year		59,605	82,000	80,000	–	–	–
In the third to fifth years, inclusive		269,045	223,000	186,000	–	–	–
Beyond five years		218,367	310,000	248,000	–	–	–
		747,855	809,142	694,885	114,621	110,142	116,885
Other loan repayable:							
Within one year		–	–	15,000	–	–	–
In the second year		–	–	15,000	–	–	–
In the third to fifth years, inclusive		–	–	12,000	–	–	–
		–	–	42,000	–	–	–
Total bank and borrowings		747,855	809,142	736,885	114,621	110,142	116,885
Less: Unamortised ancillary costs incurred in connection with the arrangement of the bank loan		(10,500)	–	–	–	–	–
		737,355	809,142	736,885	114,621	110,142	116,885
Portion classified as current liabilities		(199,338)	(194,142)	(195,885)	(114,621)	(110,142)	(116,885)
Non-current portion		538,017	615,000	541,000	–	–	–

Notes:

(a) The carrying amounts of the Target Group's bank and other borrowings are denominated in the following currencies:

	Target Group			Target Company		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	622,734	699,000	620,000	–	–	–
USD	114,621	110,142	116,885	114,621	110,142	116,885
	737,355	809,142	736,885	114,621	110,142	116,885

(b) The bank loans of the Target Group were secured by:

(i) a mortgage over property, plant and equipment with a then aggregate net carrying amount of RMB49,112,000, RMB114,112,000 and RMB65,000,000 respectively as at 31 December 2013, 2014 and 2015 *(note 12(a))*;

(ii) a mortgage over a prepaid land premium with a net carrying amount of RMB26,783,000 and RMB26,433,000 as at 31 December 2013 and 2014, respectively *(note 13(a)*). The related bank loan was fully repaid in 2015 and the pledge was released accordingly;

(iii) mortgages over certain of the solid waste treatment and power generation concession right as at 31 December 2013, 2014 and 2015, which is under the management of the Target Group pursuant to the relevant service concession agreement signed with the Grantor *(note 15)*;

(iv) guarantees given by GSE Investment Corporation and BEHL, the immediate holding company and intermediate holding company of the Target Group, respectively, as at 31 December 2014 and 2015;

(v) guarantees given by 北京金州環保發展有限公司 and 北京金州工程有限公司, the then fellow subsidiaries of the Target Company as at 31 December 2013. The related bank loan was fully repaid in 2014 and the guarantee was released accordingly;

(vi) guarantee given by a then director of the Target Company as at 31 December 2013. The related bank loan was fully repaid in 2014 and the guarantee was released accordingly;

(vii) pledge over the shares of Anjie held by the Target Company and 北京金州工程有限公司 as at 31 December 2013. The related bank loan was fully repaid in 2014 and the pledge was released accordingly;

(viii) pledge over bank balances of the Target Group of RMB20,820,000, RMB25,891,000 and RMB37,056,000 as at 31 December 2013, 2014 and 2015, respectively *(note 21(d))*; and

(ix) pledge over trade receivables arose from provision of solid waste treatment services and sales of electricity with an aggregate net carrying amount of RMB21,568,000, RMB9,457,000 and RMB5,636,000 as at 31 December 2013, 2014 and 2015, respectively *(note 18(d))*.

The bank loans of the Target Company were secured by the guarantees given by GSE Investment Corporation and BEHL, the immediate holding company and intermediate holding company of the Company, respectively, as at 31 December 2013, 2014 and 2015.

(c) The RMB denominated bank loans of the Target Group bore interests at a floating rate of two to five years or above lending rate from the People's Bank of China plus margin.

The USD denominated bank loans of the Target Group and the Target Company bore interests at a floating rate of three months to one year lending rate of London Interbank Offered Rates plus margin.

(d) The other loan from a fellow subsidiary of the Target Group bore interest at floating rates of 94% of five years lending rate from the People's Bank of China.

25. Finance Lease Payables

The Target Group leases certain of its plant and machinery for its solid waste treatment and power generation services. These leases are classified as finance leases and have remaining lease terms of three years and two years as at 31 December 2013 and 2014, respectively. The finance lease payables were early repaid by the Target Group in 2015.

At 31 December 2013, 2014 and 2015, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments			Present value of minimum lease payments		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts payable:						
Within one year	17,718	14,642	–	15,124	13,209	–
In the second year	14,642	5,300	–	13,209	2,591	–
In the third to fifth years, inclusive	5,300	–	–	2,591	–	–
Total minimum finance lease payments	37,660	19,942	–	30,924	15,800	–
Future finance charges	(6,736)	(4,142)	–			
Total net finance lease payables	30,924	15,800	–			
Portion classified as current liabilities	(15,124)	(13,209)	–			
Non-current portion	15,800	2,591	–			

26. Provision for Major Overhauls

Pursuant to the service concession agreements entered into by the Target Group, the Target Group has contractual obligations to maintain the Facility it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantor at the end of the Service Concession Period. These contractual obligations to maintain or restore the Facility, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facility during the Relevant Periods are as follows:

		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January		1,112	1,508	1,928
Additional provision	*9*	330	330	330
Increase in discounted amounts arising from the passage of time	*8*	66	90	115
At 31 December		1,508	1,928	2,373

27. Deferred Income

At 31 December 2013, 2014 and 2015, deferred income of the Target Group represented government subsidies of RMB4,850,000, RMB4,674,000 and RMB8,644,000, respectively in respect of (i) the Target Group's construction of the Facility in Beijing, the PRC; and (ii) the Target Group's construction of a solid waste treatment plant in Suzhou, Jiangsu province, the PRC. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

28. Deferred Tax

The components of deferred tax assets and liabilities and their movements during the Relevant Periods are as follows:

	Provision for major overhauls	Temporary differences related to service concession arrangement	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	278	(13,644)	(13,366)
Net deferred tax credited/(charged) to profit or loss *(note 10)*	99	(11,578)	(11,479)
At 31 December 2013 and 1 January 2014	377	(25,222)	(24,845)
Net deferred tax credited/(charged) to profit or loss *(note 10)*	105	(10,201)	(10,096)
At 31 December 2014 and 1 January 2015	482	(35,423)	(34,941)
Net deferred tax credited/(charged) to profit or loss *(note 10)*	111	(5,804)	(5,693)
At 31 December 2015	593	(41,227)	(40,634)

At 31 December 2013, 2014 and 2015, deferred tax assets have not been recognised in respect of unused tax losses of RMB11,728,000, RMB17,166,000 and RMB17,992,000, respectively, that will expire in one to five years as they have arisen in the Target Group that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Target Group, the applicable rate is 10%. The Target Group is therefore liable to withholding taxes on dividends declared by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for the withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Target Group's subsidiaries established in Mainland China. In the opinion of the directors of the Target Company, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB99,748,000, RMB105,412,000 and RMB151,839,000 as at 31 December 2013, 2014 and 2015.

29. Share Capital

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid:			
7,450,000,001 ordinary shares of USD0.01 each	579,336	579,336	579,336

30. Reserves

(a) Target Group

(i) The amounts of the Target Group's reserves and the movements therein for the Relevant Periods are presented in the statements of change in equity.

(ii) The Target Group's PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures using Chinese and Foreign Investment as applicable to the Target Group's subsidiaries. None of the Target Group's PRC reserve funds as at the end of the Relevant Periods was distributed in the form of cash dividends.

(b) Target Company

	Share premium *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2013	10,891	(132,087)	(121,196)
Profit for the year and total comprehensive income for the year	–	2,661	2,661
At 31 December 2013 and 1 January 2014	10,891	(129,426)	(118,535)
Loss for the year and total comprehensive loss for the year	–	(7,480)	(7,480)
At 31 December 2014 and 1 January 2015	10,891	(136,906)	(126,015)
Loss for the year and total comprehensive loss for the year	–	(432)	(432)
At 31 December 2015	10,891	(137,338)	(126,447)

31. Contingent liabilities

As disclosed in notes 12 and 15 to the Financial Information, the final acceptance of the construction of the waste incineration plant has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Target Company may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, as advised by the legal adviser of the Target Company, it is not likely for the Target Company to be liable to the administrative sanctions.

32. Related Party Transactions

(i) In addition to the transactions detailed elsewhere in the Financial Information, the Target Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest expense paid to a fellow subsidiary *(note (a))*	–	–	1,666
Consultation fee payable to the immediate holding company *(note (b))*	16,842	5,274	1,500

Notes:

(a) The above interest expenses were paid for loans provided by a fellow subsidiary with interest rates determined by reference to the prevailing market lending rates, details of which as set out in note 24(d) to the Financial Information.

(b) The transaction was conducted on terms and conditions mutually agreed between the relevant parties.

(ii) Outstanding balances and other transactions with related parties

(a) Details of the balances with the immediate holding company and fellow subsidiaries and a loan from a fellow subsidiary as at the end of the Relevant Periods are disclosed in notes 20 and 24 to the Financial Information, respectively.

(b) Details of the guarantees given by the then director of the Target Company, the immediate holding company and the intermediate holding company for banking facilities granted to the Target Group are disclosed in note 24 to the Financial Information.

(iii) Compensation of key management personnel of the Target Group

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	6,482	6,842	7,287
Post-employment benefits	239	270	366
Total compensation paid to key management personnel	6,721	7,112	7,653

(iv) Transactions with other state-owned entities in Mainland China

The Target Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing Municipal Government and ultimate control of the PRC government. The Target Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Relevant Periods, the Target Group has transactions with Other SOEs including, but not limited to, provision of solid waste and hazardous waste treatment and construction services, sales of electricity, bank deposits and borrowings and utilities consumptions. The directors of the Target Company consider that the transactions with the Other SOEs are activities in the ordinary course of the Target Group's businesses, and that the dealings of the Target Group have not been significantly or unduly affected by the fact that the Target Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Target Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Target Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

33. Financial Instruments by Category

All financial assets and liabilities of the Target Group and the Target Company as at the end of each of the Relevant Periods were loans and receivables and financial liabilities stated at amortised cost, respectively.

34. Financial Risk Management Objective and Policies

The Target Group's principal financial instruments comprise cash and bank balances, bank and other borrowings and balances with the immediate holding company and fellow subsidiaries. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as receivable under service concession arrangement, trade receivables, deposits and other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The carrying amounts of the Target Group's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted as effective interest rates. Accordingly, no separate disclosure of the fair values of the Target Group's financial instruments is made in the Financial Information.

The main risks arising from the Target Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risks

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group has significant bank and other borrowings *(note 24)* and bank deposits with floating interest rate which are exposed to cash flow interest-rate risk. During the Relevant Periods, the Target Group has not hedged its cash flow and fair value interest rate risks. The directors of the Target Company consider that the exposure of cash flow interest rate risk on the bank deposits is insignificant as most deposits bear variable interest rates which did not significantly fluctuated in recent years.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of each of the Relevant Periods was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Group's post-tax profits for the years ended 31 December 2013, 2014 and 2015 would decrease/increase by approximately RMB5,530,000, RMB6,069,000 and RMB5,527,000, respectively.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Company's post-tax profits for the year ended 31 December 2013 would decrease/increase by approximately RMB860,000; and the Target Company's post-tax losses from the year ended 31 December 2014 and 2015 would increase/decrease by approximately RMB826,000 and RMB877,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Sensitivity analysis on bank deposits is not presented as the directors consider that the Target Group's exposure to interest rate fluctuations on bank deposits is insignificant.

Foreign currency risk

The Target Group's businesses are mainly carried out by subsidiaries located in Mainland China and the majority of its transactions are conducted in RMB. The Target Group therefore has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency, and the net assets of the Target Group's investments in these Mainland China subsidiaries are not exposed to foreign currency translational risk. The Target Company undertakes certain transactions denominated in USD, hence exposures to exchange rate fluctuations arise. The Target Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Target Group's profit before tax and of the Target Group's equity resulted from the translation of the Target Group's foreign operations.

	Target Group			Target Company		
	Increase/ (decrease) in USD rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity	Increase/ (decrease) in USD rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*	*%*	*RMB'000*	*RMB'000*
2013						
If RMB weakens against USD	5	670	(23,160)	5	509	(6,644)
If RMB strengthens against USD	(5)	(670)	23,160	(5)	(509)	6,644
2014						
If RMB weakens against USD	5	120	(24,355)	5	469	(11,544)
If RMB strengthens against USD	(5)	(120)	24,355	(5)	(469)	11,544
2015						
If RMB weakens against USD	5	733	(22,831)	5	60	(9,690)
If RMB strengthens against USD	(5)	(733)	22,831	(5)	(60)	9,690

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The carrying amount of receivable under service concession arrangement, trade receivables, deposits and other receivables and cash and cash equivalents included in the Financial Information represent the Target Group's and the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Group and the Target Company has no other financial assets which carry significant exposure to credit risk. In respect of these receivables, the Target Group trades mainly with municipal government which does not have significant credit risk. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant. The credit risk of the Target Group's and the Target Company's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Target Group's exposure to credit risk arising from receivable under a service concession arrangement and trade receivables are disclosed in notes 15 and 18 to the Financial Information, respectively.

Liquidity risk

In light of the capital intensive nature of the Target Group's business, the Target Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and capital commitments of the Target Group. The objective of the Target Group is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and funding from its immediate holding company, as well as the strict control over its receivables due in day to day business.

The maturity profile of the Target Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015					
Trade payables	–	32,124	–	–	32,124
Other payables and accruals	–	15,285	–	–	15,285
Due to fellow subsidiaries	23,836	–	–	–	23,836
Due to the immediate holding company	475,576	–	–	–	475,576
Bank and other borrowings	–	234,746	396,352	296,732	927,830
	499,412	282,155	396,352	296,732	1,474,651
31 December 2014					
Trade payables	–	43,641	–	–	43,641
Other payables and accruals	–	32,888	–	–	32,888
Due to fellow subsidiaries	27,723	–	–	–	27,723
Due to the immediate holding company	448,141	–	–	–	448,141
Bank and other borrowings	–	245,383	456,353	383,098	1,084,834
Finance lease payables	–	14,642	5,300	–	19,942
	475,864	336,554	461,653	383,098	1,657,169
31 December 2013					
Trade payables	–	42,017	–	–	42,017
Other payables and accruals	–	39,090	–	–	39,090
Due to fellow subsidiaries	9,889	–	–	–	9,889
Due to the immediate holding company	446,550	–	–	–	446,550
Bank and other borrowings	10,000	248,161	460,327	249,275	967,763
Finance lease payables	–	17,718	19,942	–	37,660
	466,439	346,986	480,269	249,275	1,542,969

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015					
Other payables and accruals	–	6	–	–	6
Due to the immediate holding company	475,576	–	–	–	475,576
Due to a fellow subsidiary	87	–	–	–	87
Bank borrowings	–	119,116	–	–	119,116
	475,663	119,122	–	–	594,785
31 December 2014					
Other payables and accruals	–	29	–	–	29
Due to the immediate holding company	448,141	–	–	–	448,141
Due to a fellow subsidiary	54	–	–	–	54
Bank borrowings	–	111,344	–	–	111,344
	448,195	111,373	–	–	559,568
31 December 2013					
Other payables and accruals	–	826	–	–	826
Due to the immediate holding company	446,550	–	–	–	446,550
Due to a fellow subsidiary	31	–	–	–	31
Bank borrowings	–	123,969	–	–	123,969
	446,581	124,795	–	–	571,376

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital by following the immediate holding company's policies and guidelines and also seeks approval from the board of directors of the Target Company with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is calculated based on the net debts and total equity. Net debts is calculated as bank and other borrowings and finance lease payables (as shown in the consolidated statements of financial position), less cash and cash equivalents.

The gearing ratios as at the end of the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	737,355	809,142	736,885
Finance lease payables	30,924	15,800	–
Total debts	768,279	824,942	736,885
Less: Cash and cash equivalents	(116,024)	(168,753)	(161,816)
Net debts	652,255	656,189	575,069
Total equity	521,725	549,539	586,335
Gearing ratio	125.0%	119.4%	98.1%

35. EVENT AFTER THE REPORTING PERIODS

On 31 March 2016 and 17 May 2016, the Target Company has entered into a memorandum of trust and an amended and restated memorandum of trust with BEHL, an intermediate holding company, pursuant to which, it is agreed that Anjie should be held on trust by the Target Company on behalf of BEHL since 1 January 2016, thus Anjie is deemed to be disposed by the Target Company as of that date.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 哈爾濱市雙琦環保資源利用有限公司 (Ha'erbin Shuangqi Renewable Resources Co. Ltd.*) (the "Target Company") comprising the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 24 June 2016 (the "Circular") in connection with the Company's proposed acquisition of 80% equity interests of the Target Company.

The Target Company is a limited liability company established in the People's Republic of China (the "PRC") on 9 July 2004. As at the date of this report, the Target Company is principally engaged in solid waste treatment and power generation in the PRC.

The Target Company during the Relevant Periods have adopted 31 December as their financial year end date and its statutory financial statements were prepared in accordance with the relevant accounting principles applicable to enterprises established in Mainland China (the "PRC GAAP"). Details of the statutory auditors during the Relevant Periods are set out in Note 1 of Section II below.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in Note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Company as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	268,986	257,024	193,284
Cost of sales		(216,360)	(204,520)	(155,459)
Gross profit		52,626	52,504	37,825
Other income	*7*	470	609	2,286
Administrative expenses		(1,874)	(3,707)	(3,726)
Finance costs	*8*	–	(4,381)	(7,914)
PROFIT BEFORE TAX	*9*	51,222	45,025	28,471
Income tax expense	*10*	(12,668)	(12,108)	(7,140)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38,554	32,917	21,331

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	1,171	1,361	1,426
Operating concession	*12*	255,775	415,593	533,073
Other intangible assets		9	7	5
Receivable under a service concession arrangement	*12*	151,780	236,322	292,874
Prepayments, deposits and other receivables	*15*	23,284	1,523	16,230
Total non-current assets		432,019	654,806	843,608
CURRENT ASSETS				
Inventories	*13*	613	1,270	1,145
Receivable under a service concession arrangement	*12*	–	1,119	3,933
Trade receivables	*14*	1,310	8,043	8,576
Prepayments, deposits and other receivables	*15*	286	826	1,659
Other taxes recoverable		6,319	20,711	20,201
Pledged deposits	*17*	–	9,284	11,829
Cash and bank balances	*17*	6,646	93,003	53,006
Total current assets		15,174	134,256	100,349
CURRENT LIABILITIES				
Trade payables	*18*	17,791	38,851	88,713
Other payables and accruals	*19*	27,477	8,320	1,301
Other taxes payables		101	860	809
Other borrowings	*20*	130,000	85,000	20,000
Total current liabilities		175,369	133,031	110,823
NET CURRENT ASSETS/ (LIABILITIES)		(160,195)	1,225	(10,474)
TOTAL ASSETS LESS CURRENT LIABILITIES		271,824	656,031	833,134

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Bank and other borrowings	*20*	–	310,000	460,000
Provision for major overhauls	*21*	–	17	49
Deferred income	*22*	11,466	40,631	39,231
Deferred tax liabilities	*23*	17,119	29,227	36,367
Total non-current liabilities		28,585	379,875	535,647
Net assets		243,239	276,156	297,487
EQUITY				
Paid-up capital	*24*	240,000	240,000	240,000
Retained profits		3,239	36,156	57,487
Total equity		243,239	276,156	297,487

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	42,300	(35,315)	6,985
Profit for the year and total comprehensive income for the year	–	38,554	38,554
Capital injections *(note 24(b))*	197,700	–	197,700
At 31 December 2013 and 1 January 2014	240,000	3,239	243,239
Profit for the year and total comprehensive income for the year	–	32,917	32,917
At 31 December 2014 and 1 January 2015	240,000	36,156	276,156
Profit for the year and total comprehensive income for the year	–	21,331	21,331
At 31 December 2015	240,000	57,487	297,487

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		51,222	45,025	28,471
Adjustments for:				
Interest income	*7*	(406)	(449)	(590)
Write-off of trade and other payables	*7*	(64)	(160)	(1,566)
Finance costs	*8*	–	4,381	7,914
Depreciation	*9*	183	190	231
Amortisation of operating concession	*9*	–	2,697	4,624
Amortisation of other intangible assets	*9*	1	2	2
Provision for major overhauls	*9*	–	17	31
Government grant	*9*	–	(835)	(1,430)
		50,936	50,868	37,687
Decrease/(increase) in inventories		(298)	(657)	125
Increase in receivable under a service concession arrangement		(102,259)	(49,741)	(33,194)
Increase in trade receivables		(1,305)	(6,733)	(533)
Decrease/(increase) in prepayments, deposits and other receivables		(18,734)	21,221	(15,540)
Decrease/(increase) in other taxes recoverable		(4,796)	(14,392)	510
Increase/(decrease) in trade payables		5,919	(88,787)	(28,609)
Decrease in other payables and accruals		(87,093)	(18,997)	(7,019)
Increase/(decrease) in other taxes payables		(389)	759	(51)
Cash used in operations and net cash flows used in operating activities		(158,019)	(106,459)	(46,624)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(501)	(380)	(306)
Proceeds from disposal of items of property, plant and equipment		–	–	10
Additions of operating concession		(163,879)	(79,590)	(51,984)
Purchases of other intangible assets		(10)	–	–
Interest received		406	449	590
Government grant received		–	30,000	30
Increase in pledged deposits		–	(9,284)	(2,545)
Net cash flows used in investing activities		(163,984)	(58,805)	(54,205)

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans		–	310,000	90,000
Repayment of bank loans		–	–	(400,000)
New other loans		130,000	55,000	480,000
Repayment of other loans		–	(100,000)	(85,000)
Interest paid		–	(13,379)	(24,168)
Capital injections	*24(b)*	197,700	–	–
Net cash flows from financing activities		327,700	251,621	60,832
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,697	86,357	(39,997)
Cash and cash equivalents at beginning of year		949	6,646	93,003
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,646	93,003	53,006
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances other than time deposit	*17*	6,646	102,287	14,835
Time deposit	*17*	–	–	50,000
Less: Pledged deposits	*17*	–	(9,284)	(11,829)
Cash and cash equivalents		6,646	93,003	53,006

II. NOTES TO FINANCIAL INFORMATION

1. Corporate information

哈爾濱市雙琦環保資源利用有限公司 (Ha'erbin Shuangqi Renewable Resources Co. Ltd.*) (The "Target Company'') is a limited liability company established in the People's Republic of China (the "PRC'') on 9 July 2004. The registered office of the Target Company is located at 261 Ha Cheng Road, Xiangfang district, Ha'erbin, Heilongjiang province, the PRC.

During the Relevant Periods, the principal activity of the Target Company is the construction and operation of the solid waste treatment and power generation plant in Ha'berin, Heilongjiang province, the PRC under a service concession arrangement.

In the opinion of the directors of the Target Company, the immediate holding company is 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Company Limited*), which is established in the PRC with limited liability, and the ultimate holding company of the Target Company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited*), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government'').

The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 were audited by 瑞華會計師事務所(特殊普通合夥)(Ruihua Certified Public Accountants), certified public accountants registered in the PRC.

2. Basis of presentation and preparation

Basis of presentation

Despite the Target Company had net current liabilities of RMB160,195,000 and RMB10,474,000 as at 31 December 2013 and 2015, respectively, the directors of the Target Company consider that the Target Company will have adequate funds available to enable it to operate as a going concern, as Beijing Enterprises Holdings Limited, an intermediate holding company, has agreed to provide continual financial support and adequate funds to the Target Company to enable it to meet its liabilities as and when they fall due; and the immediate holding company has undertaken not to demand repayment of the amount due to it until such time when the Target Company is in a position to repay without impairing its liquidity and financial position.

In addition, as disclosed in note 12 of the Financial Information, the final acceptance of the construction of the Facility of the Target Company (as defined in note 12 to the Financial Information) and certain permits to operate the relevant Facility has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for such final acceptance and permits up to the date of approval of the Financial Information. Since the operating right was granted to the Target Company under the service concession agreement and the waste incineration plant was constructed based on the requirements stipulated in the agreement and the relevant law and regulations, the directors of the Target Company are of the opinion that there are no legal barriers which prevent it from obtaining the final acceptance and the related permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of these matters. Accordingly, the directors of the Target Company are of the view that the Target Company can continue its business on a going concern basis without being affected by the aforesaid matters.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Target Company to continue in business as a going concern.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is the functional currency of the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

3. Issued but not yet effective Hong Kong Financial Reporting Standards

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

[1] *Effective for annual periods beginning on or after 1 January 2016*

[2] *Effective for annual periods beginning on or after 1 January 2018*

[3] *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Company*

[4] *No mandatory effective date is determined but is available for early adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Company is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Company expects to adopt HKFRS 9 from 1 January 2018. The Target Company is currently assessing the impact of the standard.

(b) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Target Company expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Target Company expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Target Company's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Company upon adoption on 1 January 2016 as the Target Company has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. Summary of significant accounting policies

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a holding company of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Target Company or to the holding company of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	3 to 10 years
Motor vehicles	6 to 12 years

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Service concession arrangement

Concession arrangement is recognised in accordance with HK(IFRIC) – Int 12 *Service Concession Arrangements.*

HK(IFRIC) – Int 12 is applicable to concession arrangement comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Target Company has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Target Company for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Target Company has an unconditional right to receive cash if the grantor contractually guarantees to pay the Target Company (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Target Company ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Target Company receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Target Company is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste treatment and power generation plant, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession representing the right to operate solid waste treatment and power generation plant in the PRC is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Target Company of 30 years.

Computer software

Computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of 5 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, inventories and other taxes recoverable), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "other income" in profit or loss. The loss arising from impairment is recognised in "other operating expenses" in profit or loss.

Impairment

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses, net" in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects that rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the electricity sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Target Company;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction contracts

Contract revenue comprises the construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of solid waste treatment and power generation plant under the terms of BOT contract (service concession agreement) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Pension schemes

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government in Mainland China. The Target Company is required to contribute a certain percentage of the covered payroll to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

5. Significant accounting judgements and estimates

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the report amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Percentage of completion of construction work

The Target Company recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Target Company's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods.

The Target Company reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

Classification between operating concession and receivable under service concession arrangement

As explained in note 4 to the Financial Information, if the Target Company is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Target Company to make an estimate of a number of factors, which include, *inter alia*, the expected future solid waste treatment volume of the solid waste treatment and power generation plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 12 to the Financial Information.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of solid waste treatment and power generation plant under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

(i) the peer firm must be in the field of the construction of infrastructure, majoring in solid waste treatment and power generation facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Provision for major overhauls of solid waste treatment and power generation plant to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Target Company (a) to maintain the solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Target Company to estimate the expected future cash outlays on major overhauls of the solid waste treatment and power generation plant over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 21 to the Financial Information.

Impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables

The policy for provision for impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables of the Target Company is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details of which are set out in notes 12, 14 and 15 to the Financial Information.

Current tax and deferred tax

The Target Company is subject to income taxes in Mainland China. The Target Company carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Company's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax liabilities relating to certain deductible temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax liabilities and deferred tax in the periods in which such estimates have been changed. Further details of which are set out in note 23 to the Financial Information.

6. Operating segment information

In the opinion of the directors of the Target Company, all revenue and operating results of the Target Company are all derived from the solid waste treatment and power generation services from the PRC. Therefore, no analysis by operating segment and geographical segment is presented.

The non-current assets of the Target Company are all located in the PRC.

During the Relevant Periods, the Target Company had transactions with an external customer which contributed over 10% of the Target Company's total revenue for the Relevant Periods. A summary of revenue from the major external customer is set out below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	266,137#	239,332#	166,337#

\# *The amount represented the deemed construction revenue from provision of construction services to a government authority recognised according to HK(IFRIC) – Int 12 Service Concession Arrangements.*

7. Revenue and other income

Revenue represents (1) an appropriate portion of contract revenue of construction contracts relating to solid waste treatment and power generation, net of value-added tax and government surcharges; (2) income from solid waste treatment and sales of electricity, net of value-added tax and government surcharges; and (3) the imputed interest income on the service concession arrangement.

An analysis of the Target Company's revenue, other income and gains, net, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Solid waste treatment services*	1,672	5,729	10,623
Sale of electricity	1,177	11,963	16,324
Construction services*	266,137	239,332	166,337
	268,986	257,024	193,284

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Bank interest income	406	449	590
Write-off of trade and other payables	64	160	1,566
Others	–	–	130
	470	609	2,286

* *Imputed interest income under service concession arrangements during the year ended 31 December 2013, 2014 and 2015 amounting to RMB5,604,000, RMB12,126,000, and RMB14,036,000, respectively, is included in the revenue derived from solid waste treatment services and construction services.*

8. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	–	5,826	21,734
Other loans	–	7,553	2,434
Total interest expenses	–	13,379	24,168
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 21)*	–	–	1
Total finance costs	–	13,379	24,169
Less: Amount capitalised in operating concession	–	(8,998)	(16,255)
	–	4,381	7,914

9. Profit before tax

The Target Company's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of solid waste treatment services rendered		3,440	13,564	23,171
Cost of construction services		212,920	189,077	129,063
Depreciation	*11*	183	190	231
Amortisation of operating concession*	*12*	–	2,697	4,624
Government grant#		–	(835)	(1,430)
Amortisation of other intangible assets		1	2	2
Provision for major overhauls*	*21*	–	17	31
Auditors' remuneration		19	19	19
Employee benefit expenses:				
Wages and salaries		5,932	9,161	11,917
Pension scheme contribution		966	973	1,612
		6,898	10,134	13,529
Less: Amount included in cost of construction services		(6,898)	(5,763)	(3,978)
		–	4,371	9,551

* *These items are included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

\# *The government grant recognised during the Relevant Periods represented subsidies received from certain government authorities in respect of the fulfilment of certain specific duties by the Target Company under the relevant service concession agreement, and is included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

10. Income tax expense

No provision for Hong Kong profits tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The PRC corporate income tax provision in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on existing legislation, interpretations and practices in respect thereof. No provision for PRC corporate income tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in the PRC during the Relevant Periods.

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred *(note 23)*	12,668	12,108	7,140

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory rate to the tax expense at the effective tax, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	51,222	45,025	28,471
Tax expenses at the statutory rate of 25%	12,806	11,256	7,118
Income not subject to tax	–	(209)	(358)
Expenses not deductible for tax	–	220	378
Others	(138)	841	2
Tax charge at the Target Company's effective rate of 24.7%, 26.9% and 25.1% for the Relevant Periods	12,668	12,108	7,140

11. Property, plant and equipment

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Year ended 31 December 2015			
At 1 January 2015:			
Cost	466	2,063	2,529
Accumulated depreciation	(364)	(804)	(1,168)
Net carrying amount	102	1,259	1,361
Net carrying amount:			
At 1 January 2015	102	1,259	1,361
Additions	31	275	306
Depreciation provided during the year *(note 9)*	(27)	(204)	(231)
Disposals	–	(10)	(10)
At 31 December 2015	106	1,320	1,426
At 31 December 2015:			
Cost	497	2,064	2,561
Accumulated depreciation	(391)	(744)	(1,135)
Net carrying amount	106	1,320	1,426
Year ended 31 December 2014			
At 1 January 2014:			
Cost	432	1,717	2,149
Accumulated depreciation	(329)	(649)	(978)
Net carrying amount	103	1,068	1,171

	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Net carrying amount:			
At 1 January 2014	103	1,068	1,171
Additions	34	346	380
Depreciation provided during the year *(note 9)*	(35)	(155)	(190)
At 31 December 2014	102	1,259	1,361
At 31 December 2014:			
Cost	466	2,063	2,529
Accumulated depreciation	(364)	(804)	(1,168)
Net carrying amount	102	1,259	1,361
Year ended 31 December 2013			
At 1 January 2013:			
Cost	390	1,258	1,648
Accumulated depreciation	(292)	(503)	(795)
Net carrying amount	98	755	853
Net carrying amount:			
At 1 January 2013	98	755	853
Additions	42	459	501
Depreciation provided during the year *(note 9)*	(37)	(146)	(183)
At 31 December 2013	103	1,068	1,171
At 31 December 2013:			
Cost	432	1,717	2,149
Accumulated depreciation	(329)	(649)	(978)
Net carrying amount	103	1,068	1,171

12. Service concession arrangement

The Target Company has entered into a service concession arrangement with governmental authority (the "Grantor") in Mainland China on a BOT basis in respect of the construction and operation of a solid waste treatment and power generation plant (the "Facility"). The service concession arrangement involve the Target Company as an operator in (i) constructing the Facility for that arrangement on a BOT basis; and (ii) operating and maintaining the Facility at a specified level of serviceability on behalf of the Grantor for a period of 30 years (the "Service Concession Period"), and the Target Company will be paid by the Grantor or the relevant governmental authority for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Target Company is generally entitled to use all the property, plant and equipment of the Facility, however, the Grantor retains the beneficial entitlement to any residual interest in the Facility at the end of the term of the Service Concession Period. The service concession arrangement is governed by a contract and a supplementary agreement entered into between the Target Company and the Grantor in Mainland China that set out, *inter alia*, performance standards, mechanisms for adjusting price for the services rendered by the Target Company, specific obligations levied on the Target Company to restore the Facility to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangement are set out as follows:

Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity *(tonnes/day)*	Service concession period
Ha'erbin solid waste treatment and power generation plant BOT project	Xiangfang district, Ha'erbin, Heilongjiang province, the PRC	哈爾濱市城市管理局 (Ha'erbin City Administration Bureau*)	BOT	1,600	30 years from 2013 to 2043

Pursuant to the service concession agreements entered into by the Target Company, the Target Company is granted with the right to use the land and the property, plant and equipment of the Facility, which are registered under the name of the Target Company, during the Service Concession Period, but the Target Company is required to return the property, plant and equipment to the Grantor at a specified level of serviceability at the end of the respective Service Concession Period under the BOT arrangement. At 31 December 2015, the Target Company was in the process of applying for the registration of the title certificates with respect to the buildings of the Facility to which the Target Company's service concession arrangement relates. The directors of the Target Company are of the opinion that the Target Company is entitled to the lawful and valid occupation or use of these buildings and that the Target Company would not have any legal barriers in obtaining the title certificates.

Moreover, the Target Company was in the process of applying for the completion of final acceptance and certain permits of the Facility from the relevant government authorities up to the date of approval of The financial Information. The directors and the legal adviser of the Target Company are of the opinion that the Target Company is legitimated to operate the Facility and that the Target Company expects to have no legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangements" set out in note 4 to the Financial Information, the consideration paid by the Target Company for a service concession arrangement is accounted for as an intangible asset (operating concession) and a financial asset (receivable under a service concession arrangement).

The following is the summarised information of the intangible asset component (operating concession) and the financial asset component (receivable under a service concession arrangement) with respect to the Target Company's service concession arrangement:

Operating concession

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	118,108	281,987	444,502
Accumulated amortisation	(26,212)	(26,212)	(28,909)
Net carrying amount	91,896	255,775	415,593
Net carrying amount:			
At 1 January	91,896	255,775	415,593
Additions	163,879	162,515	122,104
Amortisation provided during the year *(note 9)*	–	(2,697)	(4,624)
At 31 December	255,775	415,593	533,073
At 31 December:			
Cost	281,987	444,502	566,606
Accumulated amortisation	(26,212)	(28,909)	(33,533)
Net carrying amount	255,775	415,593	533,073

Receivable under a service concession arrangement

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	151,780	237,441	296,807
Less: Portion classified as current assets	–	(1,119)	(3,933)
Non-current portion	151,780	236,322	292,874

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of the Target Company's solid waste treatment and power generation operation. The directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balances are considered fully recoverable. The Target Company does not hold any collateral or other credit enhancements over this balance.

At 31 December 2014, the solid waste treatment and power generation concession right of the Target Company (comprising operating concession and receivable under a service concession arrangement) with a then aggregate net carrying amount of RMB653,034,000 was pledged to secure a bank loan granted to the Target Company *(note 20(b)(i))*. The bank loan was fully repaid in 2015 and the pledge was released accordingly.

At 31 December 2015, the solid waste treatment and power generation concession right of the Target Company (comprising operating concession and receivable under a service concession arrangement) with a then aggregate net carrying amount of RMB829,880,000 was pledged to secure an other loan from a fellow subsidiary granted to the Target Company *(note 20(d)(i))*.

13. Inventories

Inventories represented coal used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by the Target Company.

14. Trade receivables

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	1,310	8,043	8,576

Notes:

(a) The Target Company's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, respectively. The Target Company's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months. The Target Company seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing and the Target Company does not hold any collateral or other credit enhancements over its trade receivable balances.

(b) An aged analysis of trade receivables as at the end of the Relevant Periods, based on the invoice date and net of impairment, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	960	5,284	2,939
4 to 6 months	345	2,372	596
7 to 12 months	–	387	4,602
Over 1 year	5	–	439
	1,310	8,043	8,576

(c) An aged analysis of trade receivables as at the end of each of the Relevant Periods, that are neither individually nor collectively considered to be impaired is as follows:

	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*
Neither past due nor impaired	299	2,748	2,002
Past due but not impaired:			
Within 3 months	1,006	4,075	1,016
4 to 6 months	–	843	1,158
7 to 12 months	–	377	4,400
Over 1 year	5	–	–
	1,310	8,043	8,576

Trade receivables related to two government authorities for whom there was no recent history of default and have a good track record with the Target Company. Based on the past experience, the directors of the Target Company are of the opinion that no provision for impairments is necessary of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There was no provision for impairment of trade receivables during the Relevant Periods.

15. Prepayments, deposits and other receivables

	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*
Prepayments	6,142	2,275	17,342
Other receivables	70	74	547
Due from an equity holder *(note 16)*	17,358	–	–
	23,570	2,349	17,889
Portion classified as current assets	(286)	(826)	(1,659)
Non-current portion	23,284	1,523	16,230

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. Balances with the immediate holding company and an equity holder

The balances with the immediate holding company and an equity holder are unsecured, interest-free and have no fixed term of repayment.

17. Pledged deposit and cash and cash equivalents

	Notes	2013 RMB'000	2014 RMB'000	2015 RMB'000
Cash and bank balances other than time deposit				
Placed in banks	(a),(b)	6,646	102,287	3,006
Placed in a financial institution	(c)	–	–	11,829
		6,646	102,287	14,835
Time deposit placed in a financial institution	(c)	–	–	50,000
		6,646	102,287	64,835
Less: Pledged deposit	(d)			
Placed in a bank	(b)	–	(9,284)	–
Placed in a financial institution	(c)	–	–	(11,829)
		–	(9,284)	(11,829)
Cash and cash equivalents		6,646	93,003	53,006

Notes:

(a) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

(c) The bank balances and pledged deposit are placed in an authorised financial institution under China Banking Regulatory Commission which is also a fellow subsidiary of the Target Company.

(d) The Target Company's pledged deposit as at 31 December 2014 included a bank deposit of RMB9,284,000 pledged to bank to secure a banking facility granted to the Target Company, which could only be applied on construction of solid waste treatment and power generation plant undertaken by the Target Company *(note 20(b)(iii))*. The bank loan was fully repaid in 2015 and the pledge was released accordingly.

The Target Company's pledged deposit as at 31 December 2015 included a bank deposit of RMB11,829,000 pledged to BG Finance to secure the a loan from BG Finance granted to the Target Company *(note 20(d)(iii))*.

18. Trade payables

The trade payables are non-interest-bearing and normally settled within one to six months. An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 1 year	9,813	5,113	2,152
Over 1 year	7,978	5,746	6,524
	17,791	10,859	8,676
Unbilled	–	27,992	80,037
	17,791	38,851	88,713

19. Other payables and accruals

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	27,477	718	588
Accruals	–	49	709
Due to the immediate holding company *(note 16)*	–	7,553	4
	27,477	8,320	1,301

Other payables are non-interest-bearing and have an average term of three months in general.

20. Bank and other borrowings

	Notes	2013 RMB'000	2014 RMB'000	2015 RMB'000
Bank loans, secured	(b)	–	310,000	–
Other loans	(c), (d)	130,000	85,000	480,000
Total bank and other borrowings		130,000	395,000	480,000
Analysed into:				
Bank loans repayable:				
Within one year		–	–	–
In the second year		–	64,600	–
In the third to fifth years, inclusive		–	173,400	–
Beyond five years		–	72,000	–
		–	310,000	–
Other loans repayable:				
On demand		–	30,000	–
Within one year		130,000	55,000	20,000
In the second year		–	–	20,000
In the third to fifth years, inclusive		–	–	150,000
Beyond five years		–	–	290,000
		130,000	85,000	480,000
Total bank and borrowings		130,000	395,000	480,000
Less: Portion classified as current liabilities		(130,000)	(85,000)	(20,000)
Non-current portion		–	310,000	460,000

Notes:

(a) The bank and other borrowings of the Target Company are all denominated in RMB.

(b) The bank loans as at 31 December 2014 bore an interest at a floating rate of five years or above lending rate from the People's Bank of China and were secured by:

(i) a mortgage over solid waste treatment and power generation concession right (comprising operating concession and a receivable under a service concession arrangement) in a then aggregate net carrying amount of RMB653,034,000 as at 31 December 2014, which are under the management of the Target Company pursuant to the relevant service concession agreements signed with the Grantor *(note 12)*;

(ii) a guarantee given by the immediate holding company of the Target Company; and

(iii) a pledge over a bank balance of the Target Company of RMB9,284,000 as at 31 December 2014 *(note 17(d))*.

The bank loans were fully repaid by the Target Company in 2015 and the pledges and guarantee were released accordingly.

(c) The other loans as at 31 December 2013 and 2014 included amounts of RMB130,000,000 and RMB85,000,000 advanced from the immediate holding company of the Target Company, respectively, which bore an interest at floating rates of six months lending rate from the People's Bank of China.

(d) The other loan as at 31 December 2015 included an amount of RMB480,000,000 advanced from a fellow subsidiary of the Target Company, which bore an interest at floating rates of 95% of five years or above lending rate from the People's Bank of China and was secured by:

(i) a mortgage over solid waste treatment and power generation concession right (comprising operating concession and a receivable under a service concession arrangement) in a then aggregate net carrying amount of RMB829,880,000 as at 31 December 2015, which are under the management of the Target Company pursuant to the relevant service concession agreements signed with the Grantor *(note 12)*;

(ii) a guarantee given by the immediate holding company of the Target Company; and

(iii) a pledge over a bank balance of the Target Company of RMB11,829,000 placed in the fellow subsidiary as at 31 December 2015 *(note 17(d))*.

The mortgage and pledge as mentioned in note (i) and (iii) above were released subsequent to the reporting period in 2016.

21. Provision for major overhauls

Pursuant to the service concession agreements entered into by the Target Company, the Target Company has contractual obligations to maintain the Facility it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantor at the end of the Service Concession Period. These contractual obligations to maintain or restore the Facility, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facility during the Relevant Periods are as follows:

		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January		–	–	17
Additional provision	*9*	–	17	31
Increase in discounted amounts arising from the passage of time	*8*	–	–	1
At 31 December		–	17	49

22. Deferred income

At 31 December 2013, 2014 and 2015, deferred income of the Target Company represented government subsidies of RMB11,466,000, RMB40,631,000, and RMB39,231,000 in aggregate, respectively in respect of the Target Company's construction of the Facility in Ha'berin, Heilongjiang province, the PRC. These subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

23. Deferred tax

The components of deferred tax assets/(liabilities) and their movements during the Relevant Periods are as follows:

	Provision for major overhauls	Temporary differences related to service concession arrangement	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	–	(4,451)	(4,451)
Net deferred tax charged to profit or loss *(note 10)*	–	(12,668)	(12,668)
At 31 December 2013 and 1 January 2014	–	(17,119)	(17,119)
Net deferred tax credited/(charged) to profit or loss *(note 10)*	4	(12,112)	(12,108)
At 31 December 2014 and 1 January 2015	4	(29,231)	(29,227)
Net deferred tax credited/(charged) to profit or loss *(note 10)*	8	(7,148)	(7,140)
At 31 December 2015	12	(36,379)	(36,367)

At 31 December 2013, 2014 and 2015, deferred tax assets have not been recognised in respect of unused tax losses of RMB35,488,000, RMB33,808,000 and RMB24,118,000, respectively, that will expire in one to five years as it is not probable that taxable profits will be available against which such tax losses can be utilised.

24. Paid-up capital

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	240,000	240,000	240,000

Notes:

(a) The capital contribution has been verified by a certified public accountant registered in the PRC.

(b) During the year ended 31 December 2013, RMB197,700,000 additional paid-up capital were injected by the equity holders of the Target Company for providing fund for the construction of solid waste treatment and power generation plant by the Target Company.

25. Reserves

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods are presented in the statements of change in equity.

26. Contingent liabilities

As disclosed in note 12 to the Financial Information, the final acceptance of the construction of the waste incineration plant has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Target Company may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, as advised by the legal adviser of the Target Company, it is not likely for the Target Company to be liable to the administrative sanctions.

27. Capital commitments

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	369,765	180,688	51,625

28. Related party transactions

(i) In addition to the transactions detailed elsewhere in the Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December		
	Notes	**2013**	**2014**	**2015**
		RMB'000	*RMB'000*	*RMB'000*
Cost of construction services paid and payable to an equity holder	*(a)*	113,845	125,875	89,209
Loan interest expense payable to the immediate holding company	*(b)*	–	7,553	262
Loan interest expense paid to a fellow subsidiary	*(b)*	–	–	2,172

Notes:

(a) The costs of construction services paid and payable were based on terms and conditions mutually agreed between the parties.

(b) The above interest expenses were paid for loans advanced from the immediate holding company and a fellow subsidiary with interest rates determined by reference to the prevailing market lending rates, details of which as set out in note 20 to the Financial Information.

(ii) Outstanding balances and transactions with related parties

(a) Details of the balances with the immediate holding company and an equity holder and loans from immediate holding company and a fellow subsidiary as at the end of the Relevant Periods are disclosed in notes 16 and 20 to the Financial Information, respectively.

(b) Details of the guarantee given by the immediate holding company for banking facilities granted to the Target Company are disclosed in notes 20(b)(ii) and 20(d)(ii) to the Financial Information.

(iii) Compensation of key management personnel of the Target Company:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	290	461	983
Post-employment benefits	7	23	156
Total compensation paid to key management personnel	297	484	1,139

(iv) Transactions with other state-owned entities in Mainland China

The Target Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing Municipal Government and ultimate control of the PRC government. The Target Company operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Relevant Periods, the Target Company has transactions with Other SOEs including, but not limited to, provision of solid waste treatment and construction services, sales of electricity, bank deposits and borrowings and utilities consumptions. The directors of the Target Company consider that the transactions with the Other SOEs are activities in the ordinary course of the Target Company's businesses, and that the dealings of the Target Company have not been significantly or unduly affected by the fact that the Target Company and the Other SOEs are ultimately controlled or owned by the PRC government. The Target Company has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Target Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

29. Financial instruments by category

All of the Target Company's financial assets and liabilities as at the end of each of the Relevant Periods were loans and receivables and financial liabilities stated at amortised cost, respectively.

30. Financial risk management objective and policies

The Target Company's principal financial instruments comprise cash and bank balances, bank and other borrowings and balances with the immediate holding company and an equity holder. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as receivable under a service concession arrangement, trade receivables, deposits and other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The carrying amounts of the Target Company's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted as effective interest rates. Accordingly, no separate disclosure of the fair values of the Target Company's financial instruments is made in the Financial Information.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risks

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company has significant bank and other borrowings (note 20) and bank deposits with floating interest rate which are exposed to cash flow interest-rate risk. During the Relevant Periods, the Target Company has not hedged its cash flow and fair value interest rate risks. The directors of the Target Company consider that the exposure of cash flow interest rate risk on the bank deposits is insignificant as most deposits bear variable interest rates which did not significantly fluctuated in recent years.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of each of the Relevant Periods was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Company's post-tax profits for the years ended 31 December 2014 and 2015 would decrease/increase by approximately RMB680,000 and RMB853,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Sensitivity analysis on bank deposits is not presented as the directors consider that the Target Company's exposure to interest rate fluctuations on bank deposits is insignificant.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The carrying amount of receivable under service concession arrangement, trade receivables, deposits and other receivables and cash and cash equivalents included in the Financial Information represent the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Company has no other financial assets which carry significant exposure to credit risk. In respect of these receivables, the Target Company trades mainly with municipal government which does not have significant credit risk. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant. The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from receivable under a service concession arrangement and trade receivables are disclosed in notes 12 and 14 to the Financial Information, respectively.

Liquidity risk

In light of the capital intensive nature of the Target Company's business, the Target Company ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and capital commitments of the Target Company. The objective of the Target Company is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and funding from its immediate holding company, as well as the strict control over its receivables due in day to day business.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015					
Trade payables	–	88,713	–	–	88,713
Other payables and accruals	–	1,301	–	–	1,301
Other taxes payables	–	809	–	–	809
Other borrowing	–	42,344	246,808	327,240	616,392
	–	133,167	246,808	327,240	707,215
31 December 2014					
Trade payables	–	38,851	–	–	38,851
Other payables and accruals	–	8,320	–	–	8,320
Other taxes payables	–	860	–	–	860
Bank and other borrowings	30,000	74,313	289,756	77,376	471,445
	30,000	122,344	289,756	77,376	519,476
31 December 2013					
Trade payables	–	17,791	–	–	17,791
Other payables and accruals	–	27,477	–	–	27,477
Other taxes payables	–	101	–	–	101
Other borrowings	–	133,191	–	–	133,191
	–	178,560	–	–	178,560

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital by following the immediate holding company's policies and guidelines and also seeks approval from the board of directors of the Target Company with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is calculated based on the net debts and total equity. Net debts is calculated as bank and other borrowings (as shown in the statements of financial position), less cash and cash equivalents.

The gearing ratios as at the end of the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	130,000	395,000	480,000
Less: Cash and cash equivalents	(6,646)	(93,003)	(53,006)
Net debts	123,354	301,997	426,994
Total equity	243,239	276,156	297,487
Gearing ratio	50.7%	109.4%	143.5%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 北控環境再生能源沭陽有限公司 (Beikong Environment Renewable Energy Shuyang Co. Ltd.*) (the "Target Company") comprising the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 24 June 2016 (the "Circular") in connection with the Company's proposed acquisition of entire equity interest of the Target Company.

The Target Company is a limited liability company established in the People's Republic of China (the "PRC") on 11 April 2012. As at the date of this report, the Target Company is principally engaged in solid waste treatment and power generation in the PRC.

The Target Company during the Relevant Periods have adopted 31 December as their financial year end date and its statutory financial statements were prepared in accordance with the relevant accounting principles applicable to enterprises established in Mainland China (the "PRC GAAP"). Details of the statutory auditors during the Relevant Periods are set out in Note 1 of Section II below.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in Note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Company as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	31,523	279,579	32,895
Cost of sales		(25,703)	(227,047)	(19,335)
Gross profit		5,820	52,532	13,560
Other income	*7*	185	555	774
Administrative expenses		(809)	(1,046)	(2,043)
Finance costs	*8*	–	(630)	(5,525)
PROFIT BEFORE TAX	*9*	5,196	51,411	6,766
Income tax expense	*10*	(1,299)	(12,749)	(879)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,897	38,662	5,887

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	610	601	496
Operating concession	*12*	19,702	194,823	191,710
Receivable under a service concession arrangement	*12*	11,821	116,946	116,252
Prepayments, deposits and other receivables	*15*	8,419	8,585	–
Total non-current assets		40,552	320,955	308,458
CURRENT ASSETS				
Inventories	*13*	–	–	125
Receivable under a service concession arrangement	*12*	–	–	1,924
Trade receivables	*14*	–	485	11,183
Prepayments, deposits and other receivables	*15*	18,657	713	4,386
Other taxes recoverable		24	8,697	11,987
Cash and bank balances	*17*	124,306	4,641	21,563
Total current assets		142,987	14,536	51,168
CURRENT LIABILITIES				
Trade payables	*18*	–	93,842	51,681
Other payables and accruals	*19*	41	343	721
Bank and other borrowings	*20*	100,000	25,000	10,000
Total current liabilities		100,041	119,185	62,402
NET CURRENT ASSETS/ (LIABILITIES)		42,946	(104,649)	(11,234)
TOTAL ASSETS LESS CURRENT LIABILITIES		83,498	216,306	297,224

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Bank and other borrowings	*20*	–	67,397	141,720
Provision for major overhauls	*21*	–	–	29
Deferred income	*22*	–	8,000	7,800
Deferred tax liabilities	*23*	1,077	13,826	14,705
Total non-current liabilities		1,077	89,223	164,254
Net assets		82,421	127,083	132,970
EQUITY				
Paid-up capital	*24*	79,190	85,190	85,190
Retained profits		3,231	41,893	47,780
Total equity		82,421	127,083	132,970

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	**Retained profits/ (accumulated losses)** *RMB'000*	**Total** *RMB'000*
At 1 January 2013	1,000	(666)	334
Profit for the year and total comprehensive income for the year	–	3,897	3,897
Capital injection *(note 24(b))*	78,190	–	78,190
At 31 December 2013 and 1 January 2014	79,190	3,231	82,421
Profit for the year and total comprehensive income for the year	–	38,662	38,662
Capital injection *(note 24(b))*	6,000	–	6,000
At 31 December 2014 and 1 January 2015	85,190	41,893	127,083
Profit for the year and total comprehensive income for the year	–	5,887	5,887
At 31 December 2015	85,190	47,780	132,970

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		5,196	51,411	6,766
Adjustments for:				
Interest income	*7*	(185)	(555)	(187)
Finance costs	*8*	–	630	5,525
Depreciation	*9*	72	113	122
Provision for major overhauls	*9*	–	–	29
Amortisation of operating concession	*9*	–	–	4,915
Government grant	*9*	–	–	(200)
		5,083	51,599	16,970
Increase in inventories		–	–	(125)
Increase in receivable under a service concession arrangement		(11,821)	(58,409)	(1,230)
Increase in trade receivables		–	(485)	(10,698)
(Increase)/decrease in prepayments, deposits and other receivables		(21,650)	17,806	8,384
Increase in other taxes recoverable		(24)	(8,673)	(3,290)
Decrease in trade payables		–	(33,104)	(42,161)
Increase/(decrease) in other payables and accruals		(5,992)	274	100
Cash used in operations and net cash flows used in operating activities		(34,404)	(30,992)	(32,050)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(284)	(104)	(17)
Additions of operating concession		(19,702)	(94,891)	(1,802)
Loan to a fellow subsidiary		–	–	(3,500)
Government grant received		–	8,000	–
Interest received		185	555	187
Net cash flows used in investing activities		(19,801)	(86,440)	(5,132)

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital injections	*24(b)*	78,190	6,000	–
New bank loan		–	72,397	–
Repayment of bank loan		–	–	(72,397)
New other loans		100,000	20,000	156,720
Repayment of other loans		–	(100,000)	(25,000)
Interest paid		–	(630)	(5,219)
Net cash flows from/(used in) financing activities		178,190	(2,233)	54,104
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		123,985	(119,665)	16,922
Cash and cash equivalents at beginning of year		321	124,306	4,641
CASH AND CASH EQUIVALENTS AT END OF YEAR		124,306	4,641	21,563
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances other than time deposits	*17*	1,806	4,641	8,563
Time deposits	*17*	122,500	–	13,000
Cash and cash equivalents		124,306	4,641	21,563

II. NOTES TO FINANCIAL INFORMATION

1. Corporate Information

北控環境再生能源沭陽有限公司 (Beikong Environment Renewable Energy Shuyang Co. Ltd.*) (The "Target Company") is a limited liability company established in the People's Republic of China (the "PRC") on 11 April 2012. The registered office of the Target Company is located at Huaihe Road West, Shuyang, Jiangsu province, the PRC.

During the Relevant Periods, the principal activity of the Target Company is the construction and operation of the solid waste treatment and power generation in Shuyang, Jiangsu province, the PRC.

In the opinion of the directors of the Target Company, the immediate holding company is 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Company Limited*), which is established in the PRC with limited liability, and the ultimate holding company of the Target Company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited*), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 were audited by 瑞華會計師事務所(特殊普通合夥)(Ruihua Certified Public Accountants), certified public accountants registered in the PRC.

2. Basis of Presentation and Preparation

Basis of presentation

Despite the Target Company had net current liabilities of RMB104,649,000 and RMB11,234,000 as at 31 December 2014 and 2015, respectively, the directors of the Target Company consider that the Target Company will have adequate funds available to enable it to operate as a going concern, as Beijing Enterprises Holdings Limited, an intermediate holding company, has agreed to provide continual financial support and adequate funds to the Target Company to enable it to meet its liabilities as and when they fall due; and the immediate holding company has undertaken not to demand repayment of the amount due to it until such time when the Target Company is in a position to repay without impairing its liquidity and financial position.

In addition, as disclosed in note 12 of the Financial Information, the final acceptance of the construction of the Facility of the Target Company (as defined in note 12 to the Financial Information) and certain permits to operate the relevant Facility has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for such final acceptance and permits up to the date of approval of the Financial Information. Since the operating right was granted to the Target Company under the service concession agreement and the waste incineration plant was constructed based on the requirements stipulated in the agreement and the relevant law and regulations, the directors of the Target Company are of the opinion that there are no legal barriers which prevent it from obtaining the final acceptance and the related permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of these matters. Accordingly, the directors of the Target Company are of the view that the Target Company can continue its business on a going concern basis without being affected by the aforesaid matters.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Target Company to continue in business as a going concern.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is the functional currency of the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

3. Issued but not yet Effective Hong Kong Financial Reporting Standards

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*

2 *Effective for annual periods beginning on or after 1 January 2018*

3 *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Company*

4 *No mandatory effective date is determined but is available for early adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Company is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Company expects to adopt HKFRS 9 from 1 January 2018. The Target Company is currently assessing the impact of the standard.

(b) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Target Company expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Target Company expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Target Company's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Company upon adoption on 1 January 2016 as the Target Company has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. Summary of significant accounting policies

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a holding company of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Target Company or to the holding company of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	7 years

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Service concession arrangement

Concession arrangement is recognised in accordance with HK(IFRIC) – Int 12 *Service Concession Arrangements.*

HK(IFRIC) – Int 12 is applicable to concession arrangement comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Target Company has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Target Company for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Target Company has an unconditional right to receive cash if the grantor contractually guarantees to pay the Target Company (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Target Company ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Target Company receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Target Company is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste treatment and power generation plant, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession representing the right to operate solid waste treatment and power generation plant in the PRC is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Target Company of 30 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, inventories and other taxes recoverable), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "other income" in profit or loss. The loss arising from impairment is recognised in "other operating expenses" in profit or loss.

Impairment

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses" in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects that rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "finance costs" in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the electricity sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Target Company;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction contracts

Contract revenue comprises the construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of solid waste treatment and power generation plant under the terms of BOT contract (service concession agreement) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Pension schemes

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government in Mainland China. The Target Company is required to contribute a certain percentage of the covered payroll to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

5. Significant accounting judgements and estimates

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the report amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Percentage of completion of construction work

The Target Company recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Target Company's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Target Company reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

Classification between operating concession and receivable under a service concession arrangement

As explained in note 4 to the Financial Information, if the Target Company is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Target Company to make an estimate of a number of factors, which include, *inter alia*, the expected future solid waste treatment volume of the solid waste treatment and power generation plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 12 to the Financial Information.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of solid waste treatment and power generation plant under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

(i) the peer firm must be in the field of the construction of infrastructure, majoring in solid waste treatment and power generation facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Provision for major overhauls of solid waste treatment and power generation plant to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Target Company (a) to maintain the solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Target Company to estimate the expected future cash outlays on major overhauls of the solid waste treatment and power generation plant over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 21 to the Financial Information.

Impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables

The policy for provision for impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables of the Target Company is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details of which are set out in notes 12, 14 and 15 to the Financial Information.

Current tax and deferred tax

The Target Company is subject to income taxes in Mainland China. The Target Company carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Company's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax liabilities relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax liabilities and deferred tax in the periods in which such estimates have been changed. Further details of which are set out in note 23 to the Financial Information.

6. Operating segment information

In the opinion of the directors of the Target Company, all revenue and operating results of the Target Company are all derived from the solid waste treatment and power generation services from the PRC. Therefore, no analysis by operating segment and geographical segment is presented.

The non-current assets of the Target Company are all located in the PRC.

During the Relevant Periods, the Target Company had transactions with three external customers which contributed over 10% of the Target Company's total revenue for the Relevant Periods. A summary of revenue from the major external customers is set out below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	*	*	9,790
Customer B	*	*	19,765
Customer C	31,523#	279,164#	3,340#

* *Less than 10% of the Target Company's total revenue.*

The amount represented the deemed construction revenue from provision of construction services to a government authority recognised according to HK(IFRIC) – Int 12 Service Concession Arrangements.

7. Revenue and other income

Revenue represents (1) an appropriate portion of contract revenue of construction contracts relating to solid waste treatment and power generation, net of value-added tax and government surcharges; (2) income from solid waste treatment and sales of electricity, net of value-added tax and government surcharges; and (3) the imputed interest income on the service concession arrangement.

An analysis of the Target Company's revenue, other income and gains, net, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Solid waste treatment services*	–	415	9,790
Sale of electricity	–	–	19,765
Construction services*	31,523	279,164	3,340
	31,523	279,579	32,895
Other income			
Bank interest income	185	555	187
Sale of scraps	–	–	387
Others	–	–	200
	185	555	774

* *Imputed interest income under service concession arrangements during the year ended 31 December 2013, 2014 and 2015 amounting to RMB341,000, RMB3,718,000 and RMB6,319,000, respectively, is included in the revenue derived from solid waste treatment services and construction services.*

8. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	–	1,712	1,779
Other loans	–	–	4,536
Total interest expenses	–	1,712	6,315
Less: Amount capitalised in operating concession	–	(1,082)	(790)
	–	630	5,525

9. Profit before tax

The Target Company's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of solid waste treatment services rendered		–	–	13,271
Cost of construction services		25,703	227,047	1,320
Depreciation	*11*	72	113	122
Amortisation of operating concession*	*12*	–	–	4,915
Provision for major overhauls*	*21*	–	–	29
Government grant#		–	–	(200)
Auditors' remuneration		9	9	9
Employee benefit expense:				
Wages and salaries		560	2,330	4,309
Pension scheme contribution		64	233	98
		624	2,563	4,407
Less: Amount included in cost of construction services		(624)	(2,563)	(1,006)
		–	–	3,401

* *These items are included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

\# *The government grant recognised during the Relevant Periods represented subsidies received from a government authority in respect of the fulfilment of certain specific duties by the Target Company under the relevant service concession agreement, and is included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

10. Income tax expense

No provision for Hong Kong profits tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The PRC corporate income tax provision in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, the Target Company enjoys PRC corporate income tax exemptions for the first three years since its fiscal year when it started to generate revenue from waste treatment in 2015, and is entitled to another 50% tax reductions for the succeeding three years (i.e. from 2018 to 2020).

No provision for PRC corporate income tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in the PRC during the year ended 31 December 2013 and 2014, and enjoys the PRC corporate income tax exemption during the year ended 31 December 2015.

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Deferred *(note 23)*	1,299	12,749	879

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory rate to the tax expense at the effective tax, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	5,196	51,411	6,766
Tax expenses at the statutory rate of 25%	1,299	12,852	1,692
Tax concession enjoyed	–	–	(841)
Income not subject to tax	–	–	(50)
Expenses not deductible for tax	–	–	64
Others	–	(103)	14
Tax charge at the Target Company's effective rate of 25.0%, 24.8% and 13.0% for the Relevant Periods	1,299	12,749	879

11. Property, plant and equipment

	Furniture, fixtures and office *RMB'000*	Motor equipment vehicles *RMB'000*	Total *RMB'000*
Year ended 31 December 2015			
At 1 January 2015:			
Cost	174	654	828
Accumulated depreciation	(63)	(164)	(227)
Net carrying amount	111	490	601
Net carrying amount:			
At 1 January 2015	111	490	601
Additions	17	–	17
Depreciation provided during the year *(note 9)*	(33)	(89)	(122)
At 31 December 2015	95	401	496
At 31 December 2015:			
Cost	191	654	845
Accumulated depreciation	(96)	(253)	(349)
Net carrying amount	95	401	496
Year ended 31 December 2014			
At 1 January 2014:			
Cost	145	579	724
Accumulated depreciation	(33)	(81)	(114)
Net carrying amount	112	498	610
Net carrying amount:			
At 1 January 2014	112	498	610
Additions	29	75	104
Depreciation provided during the year *(note 9)*	(30)	(83)	(113)
At 31 December 2014	111	490	601

	Furniture, fixtures and office *RMB'000*	Motor equipment vehicles *RMB'000*	Total *RMB'000*
At 31 December 2014:			
Cost	174	654	828
Accumulated depreciation	(63)	(164)	(227)
Net carrying amount	111	490	601
Year ended 31 December 2013			
At 1 January 2013:			
Cost	95	345	440
Accumulated depreciation	(11)	(31)	(42)
Net carrying amount	84	314	398
Net carrying amount:			
At 1 January 2013	84	314	398
Additions	50	234	284
Depreciation provided during the year *(note 9)*	(22)	(50)	(72)
At 31 December 2013	112	498	610
At 31 December 2013:			
Cost	145	579	724
Accumulated depreciation	(33)	(81)	(114)
Net carrying amount	112	498	610

12. Service concession arrangement

The Target Company has entered into a service concession arrangement with governmental authority (the "Grantor") in Mainland China on a BOT basis in respect of the construction and operation of a solid waste treatment and power generation plant (the "Facility"). The service concession arrangement involve the Target Company as an operator in (i) constructing the Facility for that arrangement on a BOT basis; and (ii) operating and maintaining the Facility at a specified level of serviceability on behalf of the Grantor for a period of 30 years (the "Service Concession Period"), and the Target Company will be paid by the Grantor or the relevant governmental authority for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Target Company is generally entitled to use all the property, plant and equipment of the Facility, however, the Grantor retains the beneficial entitlement to any residual interest in the Facility at the end of the term of the Service Concession Period. The service concession arrangement is governed by a contract entered into between the Target Company and the Grantor in Mainland China that set out, *inter alia*, performance standards, mechanisms for adjusting price for the services rendered by the Target Company, specific obligations levied on the Target Company to restore the Facility to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangement are set out as follows:

Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity *(tonnes/day)*	Service concession period
Shuyang, Jiangsu province Solid waste treatment and power generation plant BOT project	Shuyang, Jiangsu province, the PRC	The People's Government of Jiangsu province, Shuyang	BOT	600	30 years from 2015 to 2045

Pursuant to the service concession agreement entered into by the Target Company, the Target Company is granted with the right to use the land and the property, plant and equipment of the Facility, which are registered under the name of the Target Company, during the Service Concession Period, but the Target Company is required to return the property, plant and equipment to the Grantor at a specified level of serviceability at the end of the respective Service Concession Period under the BOT arrangement. At 31 December 2015, the Target Company was in the process of applying for the change of registration of the title certificates with respect to the buildings of the Facility to which the Target Company's service concession arrangement relates. The directors of the Target Company are of the opinion that the Target Company is entitled to the lawful and valid occupation or use of these buildings and that the Target Company would not have any legal barriers in obtaining the title certificates.

Moreover, the Target Company was in the process of applying for the completion of final acceptance and certain permits of the Facility from the relevant government authorities up to date of approval of the Financial Information. The directors of the Target Company are of the opinion that the Target Company is legitimated to operate the Facility and that the Target Company expects to have no legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangement" set out in note 4 to the Financial Information, the consideration paid by the Target Company for a service concession arrangement is accounted for as an intangible asset (operating concession) and a financial asset (receivable under a service concession arrangement).

The following is the summarised information of the intangible asset component (operating concession) and the financial asset component (receivable under a service concession arrangement) with respect to the Target Company's service concession arrangement:

Operating concession

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	–	19,702	194,823
Accumulated amortisation	–	–	–
Net carrying amount	–	19,702	194,823
Net carrying amount:			
At 1 January	–	19,702	194,823
Additions	19,702	175,121	1,802
Amortisation provided during the year *(note 9)*	–	–	(4,915)
At 31 December	19,702	194,823	191,710
At 31 December:			
Cost	19,702	194,823	196,625
Accumulated amortisation	–	–	(4,915)
Net carrying amount	19,702	194,823	191,710

Receivable under a service concession arrangement

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Receivable under a service concession arrangement	11,821	116,946	118,176
Portion classified as current assets	–	–	(1,924)
Non-current portion	11,821	116,946	116,252

Receivable under a service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of the Target Company's solid waste treatment and power generation operation. The directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. The Target Company does not hold any collateral or other credit enhancements over this balance.

13. Inventories

Inventories represented the spare parts used for daily maintenance of waste treatment plant managed by the Target Company.

14. Trade receivables

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	485	11,183

Notes:

(a) The Target Company's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, respectively. The Target Company's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months. The Target Company seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing and the Target Company does not hold any collateral or other credit enhancements over its trade receivable balances.

(b) An aged analysis of trade receivables as at the end of the Relevant Periods, based on the invoice date and net of impairment, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	485	6,709
4 to 6 months	–	–	2,652
7 to 12 months	–	–	1,822
Over 1 year	–	–	–
	–	485	11,183

(c) An aged analysis of trade receivables as at the end of each of the Relevant Periods, that are neither individually nor collectively considered to be impaired is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	–	485	3,564
Past due but not impaired:			
Within 3 months	–	–	4,868
4 to 6 months	–	–	1,579
7 to 12 months	–	–	1,172
	–	485	11,183

Trade receivables related to two government authorities for whom there was no recent history of default and have a good track record with the Target Company. Based on the past experience, the directors of the Target Company are of the opinion that no provision for impairments is necessary of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There was no provision for impairment of trade receivables during the Relevant Periods.

15. Prepayments, deposits and other receivables

		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments		8,519	8,828	354
Deposits		80	30	–
Other receivables		–	440	532
Due from the immediate holding company	*16*	18,477	–	–
Loan to a fellow subsidiary	*27(i)(c)*	–	–	3,500
		27,076	9,298	4,386
Portion classified as current assets		(18,657)	(713)	(4,386)
Non-current portion		8,419	8,585	–

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. Balances with the immediate holding company and fellow subsidiary

The balances with the immediate holding company and fellow subsidiary are unsecured, interest-free and have no fixed term of repayment.

17. Cash and cash equivalents

	Note	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*
Cash and bank balances other than time deposits				
Placed in banks	*(a), (b)*	1,806	4,641	5,132
Placed in a financial institution	*(c)*	–	–	3,431
		1,806	4,641	8,563
Time deposit placed in a bank	*(a), (b)*	122,500	–	–
Time deposit placed in a financial institution	*(c)*	–	–	13,000
		122,500	–	13,000
Cash and cash equivalents		124,306	4,641	21,563

Notes:

(a) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposit is made for a period of seven days and earns an interest at the same deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(c) The bank balances and time deposit are placed in an authorised financial institution under China Banking Regulatory Commission which is also a fellow subsidiary of the Target Company.

18. Trade payables

The trade payables are non-interest-bearing and normally settled within one to six months. An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	–	64	21,206
3 to 6 months	–	–	306
6 to 12 months	–	–	884
Over 1 year	–	–	553
	–	64	22,949
Unbilled	–	93,778	28,732
	–	93,842	51,681

Included in the trade payables of RMB5,500,000 as at 31 December 2015 are due to the immediate holding company which is repayable within six months, and represents credit terms similar to those offered by the immediate holding company to its major customers.

19. Other payables and accruals

		2013	2014	2015
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Other payables		–	89	111
Accruals		41	226	304
Due to the immediate holding company	*16*	–	28	–
Due to a fellow subsidiary	*16*	–	–	306
		41	343	721

Other payables are non-interest-bearing and have an average term of three months in general.

20. Bank and other borrowings

	Note	2013 RMB'000	2014 RMB'000	2015 RMB'000
Bank loan, secured	*(b)*	–	72,397	–
Other loans	*(c), (d)*	100,000	20,000	151,720
Total bank and other borrowings		100,000	92,397	151,720
Analysed into:				
Bank loans repayable:				
Within one year		–	5,000	–
In the second year		–	15,000	–
In the third to fifth years, inclusive		–	50,000	–
Beyond five years		–	2,397	–
		–	72,397	–
Other loans repayable:				
Within one year		100,000	20,000	10,000
In the second year		–	–	15,000
In the third to fifth years, inclusive		–	–	51,000
Beyond five years		–	–	75,720
		100,000	20,000	151,720
Total bank and other borrowings		100,000	92,397	151,720
Portion classified as current liabilities		(100,000)	(25,000)	(10,000)
		–	67,397	141,720

Notes:

(a) The bank and other borrowings of the Target Company are all denominated in RMB.

(b) The bank loan bore an interest at a floating rate of five years or above lending rate from the People's Bank of China and was secured by a guarantee given by the immediate holding company of the Target Company.

(c) The other loans as at 31 December 2015 included an amount of RMB151,720,000 from a fellow subsidiary of the Target Company, which bore an interest at a floating rate of 97% of five years or above lending rate from the People's Bank of China, and were secured by a guarantee given by the immediate holding company of the Target Company.

(d) The other loans as at 31 December 2013 and 2014 included amounts of RMB100,000,000 and RMB20,000,000 respectively, from the immediate holding company of the Target Company which were unsecured, interest-free and repayable within one year.

21. Provision for major overhauls

Pursuant to the service concession agreement entered into by the Target Company, the Target Company has contractual obligations to maintain the Facility it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantor at the end of the Service Concession Period. These contractual obligations to maintain or restore the Facility, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facility during the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	–	–
Additional provision *(note 9)*	–	–	29
At 31 December	–	–	29

22. Deferred income

At 31 December 2014 and 2015, deferred income of the Target Company represented government subsidy of RMB8,000,000 and RMB7,800,000 in aggregate, respectively in respect of the Target Company's construction of the Facility in Shuyang, Jiangsu province, the PRC. The subsidy is interest-free and not required to be repaid, and is recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

23. Deferred tax

The deferred tax assets/(liabilities) represented the temporary difference related to a service concession arrangement and its movements during the Relevant Periods are as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	222	(1,077)	(13,826)
Net deferred tax charged to profit or loss *(note 10)*	(1,299)	(12,749)	(879)
At 31 December	(1,077)	(13,826)	(14,705)

24. Paid-up capital

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	79,190	85,190	85,190

Notes:

(a) The capital contribution had been verified by a certified public accountant registered in the PRC.

(b) During the years ended 31 December 2013 and 2014, additional paid-up capital of RMB78,190,000 and RMB6,000,000, respectively, had been injected by the sole equity holder of the Target Company for the construction of solid waste treatment and power generation plant undertaken by the Target Company.

25. Contingent liabilities

As disclosed in note 12 to the Financial Information, the final acceptance of the construction of the waste incineration plant has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Target Company may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, as advised by the legal adviser of the Target Company, it is not likely for the Target Company to be liable to the administrative sanctions.

26. Capital commitments

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	228,368	1,320	–

27. Related party transactions

(i) In addition to the transactions detailed elsewhere in the Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of construction services paid and payable to the immediate holding company	*(a)*	8,607	76,601	861
Loan interest expense paid to a fellow subsidiary	*(b)*	–	–	4,536
Loan interest income receivable from a fellow subsidiary *(note 15)*	*(c)*	–	–	26

Notes:

(a) The costs of construction services paid or payable were based on terms and conditions mutually agreed between the parties.

(b) The interest expense was paid for loans advanced from a fellow subsidiary with interest rate determined by reference to the prevailing market lending rate, details of which as set out in note 20 to the Financial Information.

(c) The interest income was receivable from a loan advanced to a fellow subsidiary *(note 15)* with interest rate determined by reference to the prevailing market lending rate.

(ii) Outstanding balances and transactions with related parties

(a) Details of the balances with the immediate holding company and fellow subsidiaries and a loan advanced to a fellow subsidiary as at the end of the Relevant Periods are disclosed in note 16 to the Financial Information.

(b) Details of the guarantees given by the immediate holding company for a banking facility and loans from a fellow subsidiary granted to the Target Company are disclosed in notes 20(b) and 20(c) to the Financial Information, respectively.

(iii) Compensation of key management personnel of the Target Company:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	310	371	902
Post-employment benefits	29	31	51
Total compensation paid to key management personnel	339	402	953

(iv) Transactions with other state-owned entities in Mainland China

The Target Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing Municipal Government and ultimate control of the PRC government. The Target Company operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Relevant Periods, the Target Company has transactions with Other SOEs including, but not limited to, provision of solid waste treatment and construction services, sales of electricity, bank deposits and borrowings and utilities consumptions. The directors of the Target Company consider that the transactions with the Other SOEs are activities in the ordinary course of the Target Company's businesses, and that the dealings of the Target Company have not been significantly or unduly affected by the fact that the Target Company and the Other SOEs are ultimately controlled or owned by the PRC government. The Target Company has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Target Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

28. Financial instruments by category

All of the Target Company's financial assets and liabilities as at the end of each of the Relevant Periods were loans and receivables and financial liabilities stated at amortised cost, respectively.

29. Financial risk management objective and policies

The Target Company's principal financial instruments comprise cash and bank balances, bank and other borrowings and balances with the immediate holding company and fellow subsidiaries. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as receivable under service concession arrangement, trade receivables, deposits and other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The carrying amounts of the Target Company's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted as effective interest rates. Accordingly, no separate disclosure of the fair values of the Target Company's financial instruments is made in the Financial Information.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risks

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company has significant bank and other borrowings *(note 20)* and bank deposits with floating interest rate which are exposed to cash flow interest-rate risk. During the Relevant Periods, the Target Company has not hedged its cash flow and fair value interest rate risks. The directors of the Target Company consider that the exposure of cash flow interest rate risk on the bank deposits is insignificant as most deposits bear variable interest rates which did not significantly fluctuated in recent years.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of each of the Relevant Periods was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Company's post-tax profits for the years ended 31 December 2014 and 2015 would decrease/increase by approximately RMB17,000 and RMB847,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Sensitivity analysis on bank deposits is not presented as the directors consider that the Target Company's exposure to interest rate fluctuations on bank deposits is insignificant.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The carrying amount of receivable under service concession arrangement, trade receivables, deposits and other receivables and cash and cash equivalents included in the Financial Information represent the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Company has no other financial assets which carry significant exposure to credit risk. In respect of these receivables, the Target Company trades mainly with municipal government which does not have significant credit risk. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant. The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from receivable under a service concession arrangement and trade receivables are disclosed in notes 12 and 14 to the Financial Information, respectively.

Liquidity risk

In light of the capital intensive nature of the Target Company's business, the Target Company ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and capital commitments of the Target Company. The objective of the Target Company is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and funding from its immediate holding company, as well as the strict control over its receivables due in day to day business.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015					
Trade payables	–	51,681	–	–	51,681
Other payables and accruals	–	721	–	–	721
Other borrowings	–	12,211	94,236	84,982	191,429
	–	64,613	94,236	84,982	243,831
31 December 2014					
Trade payables	–	93,842	–	–	93,842
Other payables and accruals	–	343	–	–	343
Bank and other borrowings	–	29,452	73,800	2,514	105,766
	–	123,637	73,800	2,514	199,951
31 December 2013					
Other payables and accruals	–	41	–	–	41
Other borrowing	–	100,000	–	–	100,000
	–	100,041	–	–	100,041

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital by following the immediate holding company's policies and guidelines and also seeks approval from the board of directors of the Target Company with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is calculated based on the net debts and total equity. Net debts is calculated as bank and other borrowings (as shown in the statements of financial position), less cash and cash equivalents.

The Target Company is in a net cash position as at 31 December 2013, and the gearing ratios as at 31 December 2014 and 2015 are as follows:

	2014	**2015**
	RMB'000	*RMB'000*
Bank and other borrowings	92,397	151,720
Less: Cash and cash equivalents	(4,641)	(21,563)
Net debts	87,756	130,157
Total equity	127,083	132,970
Gearing ratio	69.1%	97.9%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 北控環境(文昌)再生能源有限公司 (Beikong Environment (Wenchang) Renewable Energy Co., Ltd.*), (the "Target Company") comprising the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 24 June 2016 (the "Circular") in connection with the Company's proposed acquisition of entire equity interest of the Target Company.

The Target Company is a limited liability company established in the People's Republic of China (the "PRC") on 24 February 2010. As at the date of this report, the Target Company is principally engaged in solid waste treatment and power generation in the PRC.

The Target Company during the Relevant Periods have adopted 31 December as their financial year end date and its statutory financial statements were prepared in accordance with the relevant accounting principles applicable to enterprises established in Mainland China (the "PRC GAAP"). Details of the statutory auditors during the Relevant Periods are set out in Note 1 of Section II below.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in Note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Company as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	7	8,672	12,189	13,870
Cost of sales		(5,802)	(10,299)	(9,928)
Gross profit		2,870	1,890	3,942
Administrative expenses		(2,225)	(1,994)	(1,896)
Finance costs	8	(1,654)	(1,322)	(1,198)
PROFIT/(LOSS) BEFORE TAX	9	(1,009)	(1,426)	848
Income tax credit/(expense)	10	(76)	399	(320)
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(1,085)	(1,027)	528

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	426	343	257
Receivable under a service concession arrangement	*12*	41,846	39,556	36,905
Prepayments, deposits and other receivables	*15*	102	479	648
Deferred tax assets	*22*	588	987	688
Total non-current assets		42,962	41,365	38,498
CURRENT ASSETS				
Inventories	*13*	227	349	279
Receivable under a service concession arrangement	*12*	1,772	2,290	2,651
Trade receivables	*14*	4,192	4,421	5,627
Prepayments, deposits and other receivables	*15*	318	274	315
Income tax recoverable		–	–	211
Other taxes recoverable		516	–	–
Pledged deposit	*16*	78	97	29
Cash and bank balances	*16*	1,083	1,319	2,243
Total current assets		8,186	8,750	11,355
CURRENT LIABILITIES				
Trade payables	*17*	1,920	2,251	2,245
Other payables and accruals	*18*	11,610	11,133	11,290
Other taxes payables		–	26	228
Bank and other borrowings	*20*	5,000	5,000	13,253
Total current liabilities		18,530	18,410	27,016
NET CURRENT LIABILITIES		(10,344)	(9,660)	(15,661)
TOTAL ASSETS LESS CURRENT LIABILITIES		32,618	31,705	22,837

		As at 31 December		
		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Bank and other borrowings	*20*	15,000	14,470	5,000
Provision for major overhauls	*21*	84	150	224
Total non-current liabilities		15,084	14,620	5,224
Net assets		17,534	17,085	17,613
EQUITY				
Paid-up capital	*23*	20,000	20,000	20,000
Capital reserve	*24(b)*	–	578	578
Accumulated losses		(2,466)	(3,493)	(2,965)
Total equity		17,534	17,085	17,613

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2013	20,000	–	(1,381)	18,619
Loss for the year and total comprehensive loss for the year	–	–	(1,085)	(1,085)
At 31 December 2013 and 1 January 2014	20,000	–	(2,466)	17,534
Loss for the year and total comprehensive loss for the year	–	–	(1,027)	(1,027)
Deemed contribution from the immediate holding company *(note 20(c))*	–	578	–	578
At 31 December 2014 and 1 January 2015	20,000	578	(3,493)	17,085
Profit for the year and total comprehensive income for the year	–	–	528	528
At 31 December 2015	20,000	578	(2,965)	17,613

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		(1,009)	(1,426)	848
Adjustments for:				
Finance costs	*8*	1,654	1,322	1,198
Depreciation	*9*	92	96	92
Provision for major overhauls	*9*	57	60	64
Government grant	*9*	–	–	(1,500)
		794	52	702
Decrease/(increase) in inventories		98	(122)	70
Increase in trade receivables		(223)	(229)	(1,206)
Decrease in a receivable under a service concession arrangement		1,638	1,772	2,290
Increase in prepayments, deposits and other receivables		(6)	(333)	(210)
Decrease/(increase) in other taxes recoverable		(516)	516	–
Increase/(decrease) in trade payables		(1,248)	331	(6)
Increase/(decrease) in other payables and accruals		6,682	(465)	136
Increase in other taxes payables		–	26	202
Cash generated from operations		7,219	1,548	1,978
PRC corporate income tax paid		–	–	(232)
Net cash flows from operating activities		7,219	1,548	1,746
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(16)	(13)	(6)
Decrease/(increase) in pledged deposit		(31)	(19)	68
Government grant received		–	–	1,500
Net cash flows from/(used in) investing activities		(47)	(32)	1,562

	Notes	2013 RMB'000	2014 RMB'000	2015 RMB'000
		Year ended 31 December		
CASH FLOWS FROM FINANCING ACTIVITIES				
New other loans		–	5,000	3,500
Repayment of a bank loan		(5,000)	(5,000)	(5,000)
Interest paid		(1,617)	(1,280)	(884)
Net cash flows used in financing activities		(6,617)	(1,280)	(2,384)
NET INCREASE IN CASH AND CASH EQUIVALENTS		555	236	924
Cash and cash equivalents at beginning of year		528	1,083	1,319
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,083	1,319	2,243
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances other than time deposits	*16*	1,161	1,416	2,272
Less: Pledged deposit	*16*	(78)	(97)	(29)
Cash and cash equivalents		1,083	1,319	2,243

II. NOTES TO FINANCIAL INFORMATION

1. Corporate information

北控環境(文昌)再生能源有限公司 (Beikong Environment (Wenchang) Renewable Energy Co., Ltd.*) (The "Target Company") is a limited liability company established in the People's Republic of China (the "PRC") on 24 February 2010. The registered office of the Target Company is located at QingshanLing West, Tou Yuan Banshi Chu, Wenchang, Hainan province, the PRC.

During the Relevant Periods, the principal activity of the Target Company is operation of a solid waste treatment and power generation plant in Wenchang, Hainan province, the PRC under a service concession arrangement.

In the opinion of the directors of the Target Company, the immediate holding company is 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Company Limited*), which is established in the PRC with limited liability, and the ultimate holding company of the Target Company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited*), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 were audited by 瑞華會計師事務所(特殊普通合夥)(Ruihua Certified Public Accountants), certified public accountants registered in the PRC.

2. Basis of presentation and preparation

Basis of presentation

Despite the Target Company had net current liabilities of RMB10,344,000, RMB9,660,000 and RMB15,661,000 as at 31 December 2013, 2014 and 2015, respectively, the directors of the Target Company consider that the Target Company will have adequate funds available to enable it to operate as a going concern, as Beijing Enterprises Holdings Limited, an intermediate holding company, has agreed to provide continual financial support and adequate funds to the Target Company to enable it to meet its liabilities as and when they fall due; and the immediate holding company has undertaken not to demand repayment of the amount due to it until such time when the Target Company is in a position to repay without impairing its liquidity and financial position.

In addition, as disclosed in note 12 of the Financial Information, the final acceptance of the construction of the Facility of the Target Company (as defined in note 12 to the Financial Information) and certain permits to operate the relevant Facility has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for such final acceptance and permits up to the date of approval of the Financial Information. Since the operating right was granted to the Target Company under the service concession agreement and the waste incineration plant was constructed based on the requirements stipulated in the agreement and the relevant law and regulations, the directors of the Target Company are of the opinion that there are no legal barriers which prevent it from obtaining the final acceptance and the related permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of these matters. Accordingly, the directors of the Target Company are of the view that the Target Company can continue its business on a going concern basis without being affected by the aforesaid matters.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Target Company to continue in business as a going concern.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is the functional currency of the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

3. Issued but not yet effective hong kong financial reporting standards

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*

2 *Effective for annual periods beginning on or after 1 January 2018*

3 *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Company*

4 *No mandatory effective date is determined but is available for early adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Company is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Company expects to adopt HKFRS 9 from 1 January 2018. The Target Company is currently assessing the impact of the standard.

(b) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Target Company expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Target Company expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Target Company's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Company upon adoption on 1 January 2016 as the Target Company has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. **Summary of significant accounting policies**

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a holding company of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Target Company or to the holding company of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	5 to 10 years

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Service concession arrangement

Concession arrangement is recognised in accordance with HK(IFRIC) – Int 12 *Service Concession Arrangements.*

HK(IFRIC) – Int 12 is applicable to concession arrangement comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Target Company has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Target Company for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Target Company has an unconditional right to receive cash if the grantor contractually guarantees to pay the Target Company (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Target Company ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Financial assets" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste treatment and power generation plant, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, financial assets, inventories and other taxes recoverable), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "other income" in profit or loss. The loss arising from impairment is recognised in "other operating expenses, net" in profit or loss.

Impairment

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses, net" in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects that rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in the profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of electricity, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the electricity sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Target Company; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Pension schemes

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government in Mainland China. The Target Company is required to contribute a certain percentage of the covered payroll to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

5. Significant accounting judgements and estimates

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the report amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Provision for major overhauls of solid waste treatment and power generation plant to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Target Company (a) to maintain the solid waste treatment and power generation plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Target Company to estimate the expected future cash outlays on major overhauls of the solid waste treatment and power generation plant over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 21 to the Financial Information.

Impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables

The policy for provision for impairment of receivable under a service concession arrangement, trade receivables and deposits and other receivables of the Target Company is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details of which are set out in notes 12, 14 and 15 to the Financial Information.

Current tax and deferred tax

The Target Company is subject to income taxes in Mainland China. The Target Company carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Company's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax assets relating to certain deductible temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. Further details of which are set out in note 22 to the Financial Information.

6. Operating segment information

In the opinion of the directors of the Target Company, all revenue and operating results of the Target Company are all derived from the solid waste treatment and power generation services from the PRC. Therefore, no analysis by operating segment and geographical segment is presented.

The non-current assets of the Target Company are all located in the PRC.

During the Relevant Periods, the Target Company had transactions with two external customers which contributed over 10% of the Target Company's total revenue for the Relevant Periods. A summary of revenue from the major external customers is set out below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	4,492	5,834	6,407
Customer B	4,180	6,355	7,463

7. Revenue

Revenue represents (1) income from solid waste treatment and sales of electricity, net of value-added tax and government surcharges; and (2) the imputed interest income on the service concession arrangement.

An analysis of the Target Company's revenue is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Solid waste treatment services*	4,492	5,834	6,407
Sale of electricity	4,180	6,355	7,463
	8,672	12,189	13,870

* *Imputed interest income under a service concession arrangement during the year ended 31 December 2013, 2014 and 2015 amounting to RMB2,833,000, RMB2,698,000, and RMB2,181,000, respectively, is included in the revenue derived from solid waste treatment services.*

8. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	1,652	1,268	879
Loan from a fellow subsidiary	–	–	26
Imputed interest on a loan from the immediate holding company	–	48	283
Total interest expenses	1,652	1,316	1,188
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 21)*	2	6	10
Total finance costs	1,654	1,322	1,198

9. Profit/(loss) before tax

The Target Company's profit/(loss) before tax is arrived at after charging(crediting):

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of solid waste treatment services rendered		5,745	10,239	11,364
Depreciation	*11*	92	96	92
Provision for major overhauls*	*21*	57	60	64
Government grant#		–	–	(1,500)
Auditors' remuneration		19	20	20
Employee benefit expense:				
Wages and salaries		3,052	4,113	4,854
Pension scheme contribution		236	307	429
		3,288	4,420	5,283

* *This item is included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

\# *The government grant recognised during the Relevant Periods represented subsidy received from a government authority in respect of the fulfilment of certain specific duties by the Target Company under the relevant service concession agreement, and is included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

10. Income tax expense

No provision for Hong Kong profits tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The PRC corporate income tax provision in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, the Target Company enjoys PRC corporate income tax exemptions for the first three years since its fiscal year when it started to generate revenue from waste treatment in 2012, and is entitled to another 50% tax reductions for the succeeding three years i.e. from 2015 to 2017. No provision for PRC corporate income tax has been made during the years ended 31 December 2013 and 2014 as the Target Company did not generate any assessable profits arising in the PRC during the years.

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China	–	–	21
Deferred *(note 22)*	76	(399)	299
Total tax charge/(credit) for the year	76	(399)	320

A reconciliation of the tax expense applicable to profit/(loss) before tax at the PRC statutory rate to the tax expense/(credit) at the effective tax, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	(1,009)	(1,426)	848
Tax expenses/(credit) at the statutory rate of 25%	(252)	(357)	212
Tax concession enjoyed	–	–	(21)
Expenses not deductible for tax	328	62	129
Others	–	(104)	–
Tax charge/(credit) at the Target Company's effective rate for the Relevant Periods	76	(399)	320

11. Property, plant and equipment

	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2015			
At 1 January 2015:			
Cost	252	417	669
Accumulated depreciation	(168)	(158)	(326)
Net carrying amount	84	259	343
Net carrying amount:			
At 1 January 2015	84	259	343
Additions	6	–	6
Depreciation provided during the year *(note 9)*	(43)	(49)	(92)
At 31 December 2015	47	210	257
At 31 December 2015:			
Cost	258	417	675
Accumulated depreciation	(211)	(207)	(418)
Net carrying amount	47	210	257
Year ended 31 December 2014			
At 1 January 2014:			
Cost	239	417	656
Accumulated depreciation	(121)	(109)	(230)
Net carrying amount	118	308	426

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Net carrying amount:			
At 1 January 2014	118	308	426
Additions	13	–	13
Depreciation provided during the year *(note 9)*	(47)	(49)	(96)
At 31 December 2014	84	259	343
At 31 December 2014:			
Cost	252	417	669
Accumulated depreciation	(168)	(158)	(326)
Net carrying amount	84	259	343
Year ended 31 December 2013			
At 1 January 2013:			
Cost	223	417	640
Accumulated depreciation	(78)	(60)	(138)
Net carrying amount	145	357	502
Net carrying amount:			
At 1 January 2013	145	357	502
Additions	16	–	16
Depreciation provided during the year *(note 9)*	(43)	(49)	(92)
At 31 December 2013	118	308	426
At 31 December 2013:			
Cost	239	417	656
Accumulated depreciation	(121)	(109)	(230)
Net carrying amount	118	308	426

12. Service concession arrangement

The Target Company has entered into a service concession arrangement with governmental authority (the "Grantor") in Mainland China on a Transfer-Operate-Transfer ("TOT") basis in respect of the operation of a solid waste treatment and power generation plant (the "Facility"). Under the TOT service concession arrangement, the immediate holding company of the Target Company is responsible for the construction of the Facility and transfer the Facility to the Target Company at a specific amount upon the completion of construction. The Target Company then acts as an operator in operating and maintaining the Facility at a specified level of serviceability on behalf of the Grantor for a period of 15 years (the "Service Concession Period"), and the Target Company will be paid by the Grantor or the relevant governmental authority for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Target Company is generally entitled to use all the property, plant and equipment of the Facility, however, the Grantor retains the beneficial entitlement to any residual interest in the Facility at the end of the term of the Service Concession Period. The service concession arrangement is governed by a contract entered into between the Target Company and the Grantor in Mainland China that set out, *inter alia*, performance standards, mechanisms for adjusting price for the services rendered by the Target Company, specific obligations levied on the Target Company to restore the Facility to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangement are set out as follows:

Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity *(tonnes/day)*	Service concession period
Wenchang solid waste treatment and power generation plant project	Wenchang district, Hainan province, the PRC	The People's Government of Wenchang	TOT*	225	15 years from 2012 to 2027

* *The concession right was granted by the related government authority to the immediate holding company of the Target company in the form of Build-Operate-Transfer arrangement in prior years. Nevertheless, the arrangement is accounted for as a TOT arrangement under HK(IPRIC)-Int 12 by the Target Company as it was not responsible for the construction of the Facility under the original service concession agreement.*

Pursuant to the service concession agreement entered into by the Target Company, the Target Company is granted with the right to use the land and the property, plant and equipment of the Facility, but the titles of which are registered under the name of the Grantor, during the Service Concession Period, and the Target Company is required to return the Facility to the Grantor at a specified level of serviceability at the end of the respective Service Concession Period under the TOT arrangement. Up to the date of the approval of the Financial Information the Target Company was in the process of applying for (i) the completion of final acceptance of the construction of the Facility; (ii) the electricity generation permit; and (iii) certain permits of the Facility from the relevant government authorities. The directors and the legal adviser of the Target Company are of the opinion that the Target Company is legitimated to operate the Facility and that the Target Company expects to have no legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangement" set out in note 4 to the Financial Information, the consideration paid by the Target Company for a service concession arrangement is accounted for a financial asset (receivable under a service concession arrangement).

The following is the summarised information of receivable under a service concession arrangement with respect to the Target Company's service concession arrangement:

Receivable under a service concession arrangement

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Receivable under service concession arrangement	43,618	41,846	39,556
Portion classified as current assets	(1,772)	(2,290)	(2,651)
Non-current portion	41,846	39,556	36,905

Receivable under service concession arrangement was neither past due nor impaired. Such receivable was due from the Grantor in respect of the Target Company's solid waste treatment and power generation operation. The directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in the credit quality and the balance is considered fully recoverable. The Target Company does not hold any collateral or other credit enhancements over this balance.

13. Inventories

Inventories represented coal used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by the Target Company.

14. Trade receivables

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	4,192	4,421	5,627

Notes:

(a) The Target Company's trade receivables arise from the provision of solid waste treatment services and sales of electricity to two government authorities, respectively. The Target Company's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months. The Target Company seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing and the Target Company does not hold any collateral or other credit enhancements over its trade receivable balances.

(b) An aged analysis of trade receivables as at the end of the Relevant Periods, based on the invoice date and net of impairment, is as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	2,732	3,491	3,301
4 to 6 months	1,126	930	2,326
7 to 12 months	–	–	–
Over 1 year	334	–	–
	4,192	4,421	5,627

(c) An aged analysis of trade receivables as at the end of each of the Relevant Periods, that are neither individually nor collectively considered to be impaired is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	1,071	1,555	839
Past due but not impaired:			
Within 3 months	2,317	2,655	3,233
4 to 6 months	470	211	1,555
7 to 12 months	–	–	–
Over 1 year	334	–	–
	4,192	4,421	5,627

Trade receivables related to two government authorities for whom there was no recent history of default and have a good track record with the Target Company. Based on the past experience, the directors of the Target Company are of the opinion that no provision for impairments is necessary of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There was no provision for impairment of trade receivables during the Relevant Periods.

(d) As at 31 December 2013, 2014 and 2015, the trade receivables of RMB2,900,000, RMB3,553,000 and RMB4,923,000, respectively, arises from the provision of solid waste treatment service are pledged to secure a bank loan granted to the Target Company *(note 20(b)(i))*.

15. Prepayments, deposits and other receivables

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	129	493	713
Other receivables	291	260	250
	420	753	963
Portion classified as current assets	(318)	(274)	(315)
Non-current portion	102	479	648

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. Pledged deposit and cash and cash equivalents

		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances other than time deposits	*(b)*	1,161	1,416	2,272
Less: Pledged deposit	*(b), (c)*	(78)	(97)	(29)
Cash and cash equivalents		1,083	1,319	2,243

Notes:

(a) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

(c) The Target Company's pledged deposit as at 31 December 2013, 2014 and 2015 included a bank deposit of RMB78,000, RMB97,000 and RMB29,000 pledged to a bank to secure the banking facility granted to the Target Company *(note 20(b)(ii))*.

17. Trade payables

The trade payables are non-interest-bearing and normally settled within one to six months. An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	1	99	99
4 to 6 months	82	–	4
7 to 12 months	1,442	5	–
Over 1 year	–	1,442	1,449
	1,525	1,546	1,552
Unbilled	395	705	693
	1,920	2,251	2,245

Included in the trade payables of RMB1,442,000, RMB1,442,000 and RMB1,442,000 as at the years ended 31 December 2013, 2014 and 2015 are amounts due to the immediate holding company which are repayable within one year, and represents credit terms similar to those offered by the immediate holding company to its major customers.

18. Other payables and accruals

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	110	133	290
Due to the immediate holding company *(note 19)*	11,500	11,000	11,000
	11,610	11,133	11,290

Other payables are non-interest-bearing and have an average term of three months in general.

19. Balance with the immediate holding company

The amount due to the immediate holding company is unsecured, interest-free and has no fixed term of repayment.

20. Bank and other borrowings

	Notes	2013 RMB'000	2014 RMB'000	2015 RMB'000
Bank loan, secured	(b)	20,000	15,000	10,000
Other loans	(c), (d)	–	4,470	8,253
Total bank and other borrowings		20,000	19,470	18,253
Analysed into:				
Bank loans repayable:				
Within one year		5,000	5,000	5,000
In the second year		5,000	5,000	5,000
In the third to fifth years, inclusive		10,000	5,000	–
		20,000	15,000	10,000
Other loans repayable:				
Within one year		–	–	8,253
In the second year		–	4,470	–
		–	4,470	8,253
Total bank and other borrowings		20,000	19,470	18,253
Portion classified as current liabilities		(5,000)	(5,000)	(13,253)
Non-current portion		15,000	14,470	5,000

Notes:

(a) The bank and other borrowings of the Target Company are all denominated in RMB.

(b) The bank loan of the Target Company bore an interest at a fixed rate of five years or above lending rate from the People's Bank of China at the time when the loan was drawn and was secured by:

(i) pledge over trade receivable arises from provision of solid waste treatment services with an aggregate net carrying amount of RMB2,900,000, RMB3,553,000, and RMB4,923,000 as at 31 December 2013, 2014 and 2015, respectively *(note 14(d))*; and

(ii) pledge over a bank balance of the Target Company of RMB78,000, RMB97,000, and RMB29,000 as at 31 December 2013, 2014 and 2015, respectively *(note 16(c))*.

(c) The other loans as at 31 December 2014 and 2015 included amounts of RMB4,470,000 and RMB4,753,000, respectively, were advanced from the immediate holding company of the Target Company, which was interest-free and repayable in 2 years. The loan was initially recognised at amortised cost of RMB4,422,000 and a deemed contribution from the immediate holding company of RMB578,000 is recognised as the "capital reserve" account in the statement of financial position as at 31 December 2014. Imputed interest expense of RMB48,000 and RMB283,000 is recognised as "finance cost" in profit or loss during the years ended 31 December 2014 and 2015 respectively.

(d) The other loans as at 31 December 2015 included an amount of RMB3,500,000 was advanced from a fellow subsidiary of the Target Company, which bore an interest at a floating rate of six months lending rate from the People's Bank of China.

21. Provision for major overhauls

Pursuant to the service concession agreement entered into by the Target Company, the Target Company has contractual obligations to maintain the Facility it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantor at the end of the Service Concession Period. These contractual obligations to maintain or restore the Facility, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facility during the Relevant Periods are as follows:

		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January		25	84	150
Additional provision	*9*	57	60	64
Increase in discounted amounts arising from the passage of time	*8*	2	6	10
At 31 December		84	150	224

22. Deferred tax

The components of deferred tax assets/(liabilities) and their movements during the Relevant Periods are as follows:

	Provision for major overhauls	Accrued expenses	Temporary differences related to service concession arrangement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	25	1,203	(564)	664
Net deferred tax credited/(charged) to profit or loss *(note 10)*	14	80	(170)	(76)
At 31 December 2013 and 1 January 2014	39	1,283	(734)	588
Net deferred tax credited/(charged) to profit or loss *(note 10)*	16	652	(269)	399
At 31 December 2014 and 1 January 2015	55	1,935	(1,003)	987
Net deferred tax credited/(charged) to profit or loss *(note 10)*	18	197	(514)	(299)
At 31 December 2015	73	2,132	(1,517)	688

23. Paid-up capital

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	20,000	20,000	20,000

The capital contribution has been verified by a certified public accountant registered in the PRC.

24. Reserves

(a) The amounts of the Target Company's reserves and the movements therein for the Relevant Periods are presented in the statements of change in equity.

(b) Capital reserve represented the deemed contribution from the immediate holding company, details of which are set out in note 20(c) to the Financial Information.

25. Contingent liabilities

As disclosed in note 12 to the Financial Information, the final acceptance of the construction of the waste incineration plant has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Target Company may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, as advised by the legal adviser of the Target Company, it is not likely for the Target Company to be liable to the administrative sanctions.

26. Related party transactions

(a) In addition to the transactions detailed elsewhere in the Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Imputed interest expense on an interest-free loan from the immediate holding company *(note 20(c))*	*(a)*	–	48	283
Loan interest expense payable to a fellow subsidiary *(note 20(d))*	*(b)*	–	–	26

Notes:

(a) The above imputed interest expenses arose from a loan advanced from the immediate holding company with a discount rate determined by reference to the prevailing market lending rate, details of which as set out in note 20(c) to the Financial Information.

(b) The above interest expenses were paid for a loan provided by a fellow subsidiary with an interest rate determined by reference to the prevailing market lending rate, details of which as set out in note 20(d) to the Financial Information.

(b) Outstanding balances with related parties

Other than the amount due to the immediate holding company, the loans from the immediate holding company and a fellow subsidiary as disclosed in notes 18, 20(c) and 20(d) to the Financial Information, respectively, the Target Company had no outstanding balance with related parties as at the end of the Relevant Periods.

(c) Compensation of key management personnel of the Target Company:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	444	761	961
Post-employment benefits	28	37	40
Total compensation paid to key management personnel	472	798	1,001

(d) Transactions with other state-owned entities in Mainland China

The Target Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing Municipal Government and ultimate control of the PRC government. The Target Company operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Relevant Periods, the Target Company has transactions with Other SOEs including, but not limited to, provision of solid waste treatment services, sales of electricity, bank deposits and borrowings and utilities consumptions. The directors of the Target Company consider that the transactions with the Other SOEs are activities in the ordinary course of the Target Company's businesses, and that the dealings of the Target Company have not been significantly or unduly affected by the fact that the Target Company and the Other SOEs are ultimately controlled or owned by the PRC government. The Target Company has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Target Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

27. Financial instruments by category

All of the Target Company's financial assets and liabilities as at the end of each of the Relevant Periods were loans and receivables and financial liabilities stated at amortised cost, respectively.

28. Financial risk management objective and policies

The Target Company's principal financial instruments comprise cash and bank balances, bank and other borrowings and amount due to the immediate holding company. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as receivable under service concession arrangement, trade receivables, deposits and other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The carrying amounts of the Target Company's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted as effective interest rates. Accordingly, no separate disclosure of the fair values of the Target Company's financial instruments is made in the Financial Information.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risks

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company has significant bank and other borrowings *(note 20)* and bank deposits with floating interest rate which are exposed to cash flow interest-rate risk. During the Relevant Periods, the Target Company has not hedged its cash flow and fair value interest rate risks. The directors of the Target Company consider that the exposure of cash flow interest rate risk on the bank deposits is insignificant as most deposits bear variable interest rates which did not significantly fluctuated in recent years.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of each of the Relevant Periods was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Company's post-tax loss for the year ended 31 December 2013 and 2014 would increase/decrease by approximately RMB249,000 and RMB189,000 respectively, and the Target Company's post-tax profits for the years ended 31 December 2015 would decrease/increase by approximately RMB151,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Sensitivity analysis on bank deposits is not presented as the directors consider that the Target Company's exposure to interest rate fluctuations on bank deposits is insignificant.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The carrying amount of receivable under service concession arrangement, trade receivables, deposits and other receivables and cash and cash equivalents included in the Financial Information represent the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Company has no other financial assets which carry significant exposure to credit risk. In respect of these receivables, the Target Company trades mainly with municipal government which does not have significant credit risk. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant. The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents, other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade receivables are disclosed in note 14 to the Financial Information.

Liquidity risk

In light of the capital intensive nature of the Target Company's business, the Target Company ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and capital commitments of the Target Company. The objective of the Target Company is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and funding from its immediate holding company, as well as the strict control over its receivables due in day to day business.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015				
Trade payables	–	2,245	–	2,245
Other payables and accruals	–	290	–	290
Due to the immediate holding company	11,000	–	–	11,000
Bank and other borrowings	–	13,961	5,244	19,205
	11,000	16,496	5,244	32,740
31 December 2014				
Trade payables	–	2,251	–	2,251
Other payables and accruals	–	133	–	133
Due to the immediate holding company	11,000	–	–	11,000
Bank and other borrowings	–	5,874	15,655	21,529
	11,000	8,258	15,655	34,913
31 December 2013				
Trade payables	–	1,920	–	1,920
Other payables and accruals	–	110	–	110
Due to the immediate holding company	11,500	–	–	11,500
Bank loans	–	6,273	16,529	22,802
	11,500	8,303	16,529	36,332

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital by following the immediate holding company's policies and guidelines and also seeks approval from the board of directors of the Target Company with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is calculated based on the net debts and total equity. Net debts is calculated as bank and other borrowings (as shown in the statements of financial position), less cash and cash equivalents.

The gearing ratios as at the end of the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	20,000	19,470	18,253
Less: Cash and cash equivalents	(1,083)	(1,319)	(2,243)
Net debts	18,917	18,151	16,010
Total equity	17,534	17,085	17,613
Gearing ratio	107.9%	106.2%	90.9%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environment Science and Technology Development Co., Ltd.*), (the "Target Company") comprising the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Beijing Development (Hong Kong) Limited (the "Company") dated 24 June 2016 (the "Circular") in connection with the Company's proposed acquisition of 65% equity interests of the Target Company.

The Target Company is a limited liability company established in the People's Republic of China (the "PRC") on 23 February 2006. As at the date of this report, the Target Company is principally engaged hazardous waste treatment in the PRC.

The Target Company during the Relevant Periods have adopted 31 December as their financial year end date and its statutory financial statements were prepared in accordance with the relevant accounting principles applicable to enterprises established in Mainland China (the "PRC GAAP"). Details of the statutory auditors during the Relevant Periods are set out in Note 1 of Section II below.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in Note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of the Target Company as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	20,405	47,436	57,027
Cost of sales		(15,504)	(34,938)	(43,219)
Gross profit		4,901	12,498	13,808
Other income	*7*	57	42	1,671
Selling and distribution expenses		(836)	(1,258)	(1,026)
Administrative expenses		(2,660)	(2,962)	(3,212)
Other operating expenses, net		(19)	(26)	–
Finance costs	*8*	(1,388)	(2,087)	(1,705)
PROFIT BEFORE TAX	*9*	55	6,207	9,536
Income tax expense	*10*	(872)	(349)	(366)
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(817)	5,858	9,170

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	1,312	1,273	1,156
Operating concession	*12*	219,598	236,858	234,981
Prepayments	*15*	95	170	1,744
Total non-current assets		221,005	238,301	237,881
CURRENT ASSETS				
Inventories	*13*	97	210	198
Trade and bills receivables	*14*	2,580	3,371	5,265
Prepayments, deposits and other receivables	*15*	287	561	1,741
Cash and bank balances	*16*	16,550	9,797	6,410
Total current assets		19,514	13,939	13,614
CURRENT LIABILITIES				
Trade payables	*17*	36,077	36,545	39,587
Other payables	*18*	957	2,120	2,890
Income tax payable		–	–	567
Other taxes payables		1	2	448
Bank and other borrowings	*19*	3,900	15,100	10,100
Total current liabilities		40,935	53,767	53,592
NET CURRENT LIABILITIES		(21,421)	(39,828)	(39,978)
TOTAL ASSETS LESS CURRENT LIABILITIES		199,584	198,473	197,903

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Bank and other borrowings	*19*	23,200	18,100	13,000
Provision for major overhauls	*20*	–	21	61
Deferred income	*21*	95,950	93,711	89,873
Deferred tax liabilities	*22*	10,111	10,460	9,618
Total non-current liabilities		129,261	122,292	112,552
Net assets		70,323	76,181	85,351
EQUITY				
Paid-up capital	*23*	38,090	38,090	38,090
Reserves	*24(a)*	32,233	38,091	47,261
Total equity		70,323	76,181	85,351

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital *RMB'000*	PRC reserve funds *RMB'000* *(note 24(b))*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2013	38,090	–	33,050	71,140
Loss for the year and total comprehensive loss for the year	–	–	(817)	(817)
At 31 December 2013 and 1 January 2014	38,090	–*	32,233*	70,323
Profit for the year and total comprehensive income for the year	–	–	5,858	5,858
At 31 December 2014 and 1 January 2015	38,090	–*	38,091*	76,181
Profit for the year and total comprehensive income for the year	–	–	9,170	9,170
Transfer to PRC reserve funds	–	659	(659)	–
At 31 December 2015	38,090	659*	46,602*	85,351

* *These reserves accounts comprise the reserves of RMB32,233,000, RMB38,091,000 and RMB47,261,000 in the statements of financial position as at 31 December 2013, 2014 and 2015, respectively.*

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		55	6,207	9,536
Adjustments for:				
Bank interest income	7	(47)	(40)	(33)
Finance costs	8	1,388	2,087	1,705
Loss on disposal of property, plant and equipment	9	8	–	1
Depreciation	9	224	297	281
Amortisation of operating concession	9	–	5,314	9,110
Government grant	9	–	(2,239)	(3,838)
Provision for major overhauls	9	–	21	38
		1,628	11,647	16,800
Decrease/(increase) in inventories		(97)	(113)	12
Decrease/(increase) in trade and bills receivables		3,107	(791)	(1,894)
Decrease/(increase) in prepayments, deposits and other receivables		1,433	(349)	(2,754)
Increase/(decrease) in trade payables		(6,741)	468	3,042
Increase in other payables and accruals		599	1,167	766
Increase/(decrease) in other taxes payables		(3)	1	446
Cash generated from/(used in) operations		(74)	12,030	16,418
PRC corporate income tax paid		–	–	(641)
Net cash flows from/(used in) operating activities		(74)	12,030	15,777
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(652)	(258)	(165)
Proceeds from disposal of an item of property, plant and equipment		2	–	–
Additions of operating concession		(12,971)	(22,574)	(7,233)
Interest received		47	40	33
Net cash flows used in investing activities		(13,574)	(22,792)	(7,365)

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loan	14,000	–	–
Repayment of bank loan	(1,900)	(3,900)	(5,100)
Loan from the immediate holding company	–	10,000	–
Repayment of loan from the immediate holding company	–	–	(5,000)
Interest paid	(1,359)	(2,091)	(1,699)
Net cash flows from/(used in) financing activities	10,741	4,009	(11,799)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,907)	(6,753)	(3,387)
Cash and cash equivalents at beginning of year	19,457	16,550	9,797
CASH AND CASH EQUIVALENTS AT END OF YEAR	16,550	9,797	6,410

II. NOTES TO FINANCIAL INFORMATION

1. Corporate information

湖南衡興環保科技開發有限公司 (Hunan Hengxing Environment Science and Technology Development Co., Ltd.*) (The "Target Company") is a limited liability company established in the People's Republic of China (the "PRC") on 23 February 2006. The registered office of the Target Company is located at Gucheng village, Hongshan town, Hengnan district, Hengyang, Hunan province, the PRC.

During the Relevant Periods, the principal activity of the Target Company is construction and operation of the hazardous waste treatment plant in Hengyang, Hunan province, the PRC under a service concession arrangement.

In the opinion of the directors of the Target Company, the immediate holding company is 北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Company Limited*), which is established in the PRC with limited liability, and the ultimate holding company of the Target Company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited*), which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing Municipal Government").

The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 were audited by 瑞華會計師事務所(特殊普通合夥)(Ruihua Certified Public Accountants), certified public accountants registered in the PRC.

2. Basis of presentation and preparation

Basis of presentation

Despite the Target Company had net current liabilities of RMB21,421,000, RMB39,828,000 and RMB39,978,000 as at 31 December 2013, 2014 and 2015, respectively, the directors of the Target Company consider that the Target Company will have adequate funds available to enable it to operate as a going concern, as Beijing Enterprises Holdings Limited, an intermediate holding company, has agreed to provide continual financial support and adequate funds to the Target Company to enable it to meet its liabilities as and when they fall due; and the immediate holding company has undertaken not to demand repayment of the amount due to it until such time when the Target Company is in a position to repay without impairing its liquidity and financial position.

In addition, as disclosed in note 12 of the Financial Information, the final acceptance of the construction of the Facility of the Target Company (as defined in note 12 to the Financial Information) and certain permits to operate the relevant Facility has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for such final acceptance and permits up to the date of approval of the Financial Information. Since the operating right was granted to the Target Company under the service concession agreement and the waste incineration plant was constructed based on the requirements stipulated in the agreement and the relevant law and regulations, the directors of the Target Company are of the opinion that there are no legal barriers which prevent it from obtaining the final acceptance and the related permits and it is unlikely for the Target Company to incur any extra costs or administrative sanctions in respect of these matters. Accordingly, the directors of the Target Company are of the view that the Target Company can continue its business on a going concern basis without being affected by the aforesaid matters.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Financial Information does not include any adjustments that would result from the failure of the Target Company to continue in business as a going concern.

Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is the functional currency of the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

3. Issued but not yet effective Hong Kong Financial Reporting Standards

The Target Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

[1] *Effective for annual periods beginning on or after 1 January 2016*

[2] *Effective for annual periods beginning on or after 1 January 2018*

[3] *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Company*

[4] *No mandatory effective date is determined but is available for early adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Company is as follows:

(a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Company expects to adopt HKFRS 9 from 1 January 2018. The Target Company is currently assessing the impact of the standard.

(b) HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Target Company expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Target Company expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Target Company's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Target Company upon adoption on 1 January 2016 as the Target Company has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. Summary of significant accounting policies

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a holding company of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Target Company or to the holding company of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	4 to 8 years

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Service concession arrangement

Concession arrangement is recognised in accordance with HK(IFRIC) – Int 12 *Service Concession Arrangements.*

HK(IFRIC) – Int 12 is applicable to concession arrangement comprising a public service obligation and satisfying all of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and prices applied;

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

The accounting for service concession is as follows:

Consideration given by the grantor

An intangible asset (operating concession) is recognised to the extent that the Target Company receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain hazardous waste treatment plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore hazardous waste treatment plant, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concession

Operating concession representing the right to operate hazardous waste treatment plant in the PRC is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the period of the operating concession granted to the Target Company of 25 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income" in profit or loss. The loss arising from impairment is recognised in "Other operating expenses" in profit or loss.

Impairment

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses, net" in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects that rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation/amortisation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Target Company;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Construction contracts

Contract revenue comprises the construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction hazardous waste treatment plant under the terms of BOT contract (service concession agreement) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Pension schemes

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government in Mainland China. The Target Company is required to contribute a certain percentage of the covered payroll to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

5. Significant accounting judgements and estimates

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the report amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Percentage of completion of construction work

The Target Company recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Target Company's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Target Company reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of hazardous waste treatment plant under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

(i) the peer firm must be in the field of the construction of infrastructure, majoring in hazardous waste treatment facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Provision for major overhauls of hazardous waste treatment plant to a specified level of serviceability

The Target Company has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Target Company (a) to maintain the hazardous waste treatment plant it operates to a specified level of serviceability and/or (b) to restore the plant to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Target Company to estimate the expected future cash outlays on major overhauls of the solid waste treatment and power generation plant over the service concession period and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 20 to the Financial Information.

Impairment of trade and bills receivables and deposits and other receivables

The policy for provision for impairment trade and bills receivables and deposits and other receivables of the Target Company is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details of which are set out in notes 14 and 15 to the Financial Information.

Current tax and deferred tax

The Target Company is subject to income taxes in Mainland China. The Target Company carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Company's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax liabilities relating to certain deductible temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax liabilities and deferred tax in the periods in which such estimates have been changed. Further details of which are set out in note 22 to the Financial Information.

6. Operating segment information

In the opinion of the directors of the Target Company, all revenue and operating results of the Target Company are all derived from the hazardous waste treatment services from the PRC. Therefore, no analysis by operating segment and geographical segment is presented.

The non-current assets of the Target Company are all located in the PRC.

During the Relevant Periods, the Target Company had transactions with two external customers which contributed over 10% of the Target Company's total revenue for the Relevant Periods. A summary of revenue from the major external customers is set out below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	*	*	17,598
Customer B	12,971#	22,574#	7,233#

* *Less than 10% of the Target Company's total revenue.*

\# *The amount represented the deemed construction revenue from provision of construction services to a government authority recogonised according to HK(IFRIC) Int-12 Service Concession Arrangements.*

7. Revenue and other income

Revenue represents (1) an appropriate portion of contract revenue of construction contracts relating to hazardous waste treatment, net of value-added tax and government surcharges; and (2) income from hazardous waste treatment, net of value-added tax and government surcharges.

An analysis of the Target Company's revenue and other income is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Hazardous waste treatment services	7,434	24,862	49,794
Construction services	12,971	22,574	7,233
	20,405	47,436	57,027
Other income			
Bank interest income	47	40	33
Refund of value-added tax	–	–	1,638
Others	10	2	–
	57	42	1,671

8. Finance costs

An analysis of finance costs is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank loan	1,388	1,762	1,386
Other loan from the immediate holding company	–	325	317
Total interest expenses	1,388	2,087	1,703
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 20)*	–	–	2
	1,388	2,087	1,705

9. Profit before tax

The Target Company's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of hazardous waste treatment services rendered		5,001	13,563	32,052
Cost of construction service		10,503	18,279	5,857
Depreciation	*11*	224	297	281
Amortisation of operating concession*	*12*	–	5,314	9,110
Government grant#		–	(2,239)	(3,838)
Provision for major overhauls*	*20*	–	21	38
Auditors' remuneration		20	20	20
Loss on disposal of items of property, plant and equipment		8	–	1
Employee benefit expense:				
Wages and salaries		2,532	4,269	4,734
Pension scheme contribution		259	704	731
		2,791	4,973	5,465

* *These items are included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

\# *The government grant recognised during the Relevant Periods represented subsidies received from a government authority in respect of the fulfilment of certain specific duties by the Target Company under the relevant service concession agreement, and is included in "Cost of sales" in the statements of profit or loss and other comprehensive income.*

10. Income tax expense

No provision for Hong Kong profits tax has been made during the Relevant Periods as the Target Company did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The PRC corporate income tax provision in respect of operations in Mainland China are calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, the Target Company enjoys PRC corporate income tax exemptions for the first three years since its fiscal year when it started to generate revenue from waste treatment in 2012, and is entitled to another 50% tax reductions for the succeeding three years i.e. from 2015 to 2017. No provision for PRC corporate income tax has been made during the years ended 31 December 2013 and 2014 as the Target Company did not generate any assessable profits arising in the PRC during the years.

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China	–	–	1,208
Deferred *(note 22)*	872	349	(842)
Total tax charge for the year	872	349	366

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory rate to the tax expense at the effective tax, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	55	6,207	9,536
Tax expenses at the statutory rate of 25%	14	1,552	2,384
Tax concession enjoyed	–	(4,466)	(1,739)
Income not subject to tax	–	(560)	(960)
Expenses not deductible for tax	858	3,823	1,211
Tax losses utilised from previous periods	–	–	(530)
Tax charge at the Target Company's effective rate for the Relevant Periods	872	349	366

11. Property, plant and equipment

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Year ended 31 December 2015			
At 1 January 2015:			
Cost	716	1,386	2,102
Accumulated depreciation	(289)	(540)	(829)
Net carrying amount	427	846	1,273
Net carrying amount:			
At 1 January 2015	427	846	1,273
Additions	15	150	165
Depreciation provided during the year *(note 9)*	(105)	(176)	(281)
Disposal	(1)	–	(1)
At 31 December 2015	336	820	1,156
At 31 December 2015:			
Cost	718	1,536	2,254
Accumulated depreciation	(382)	(716)	(1,098)
Net carrying amount	336	820	1,156
Year ended 31 December 2014			
At 1 January 2014:			
Cost	487	1,357	1,844
Accumulated depreciation	(195)	(337)	(532)
Net carrying amount	292	1,020	1,312

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Net carrying amount:			
At 1 January 2014	292	1,020	1,312
Additions	229	29	258
Depreciation provided during the year *(note 9)*	(94)	(203)	(297)
At 31 December 2014	427	846	1,273
At 31 December 2014:			
Cost	716	1,387	2,103
Accumulated depreciation	(289)	(541)	(830)
Net carrying amount	427	846	1,273
Year ended 31 December 2013			
At 1 January 2013:			
Cost	445	837	1,282
Accumulated depreciation	(109)	(279)	(388)
Net carrying amount	336	558	894
Net carrying amount:			
At 1 January 2013	336	558	894
Additions	42	610	652
Depreciation provided during the year *(note 9)*	(86)	(138)	(224)
Disposal	–	(10)	(10)
At 31 December 2013	292	1,020	1,312
At 31 December 2013:			
Cost	487	1,357	1,844
Accumulated depreciation	(195)	(337)	(532)
Net carrying amount	292	1,020	1,312

12. Service concession arrangement

The Target Company has entered into a service concession arrangement with governmental authority (the "Grantor") in Mainland China on a BOT basis in respect of the construction and operation of a hazardous waste treatment plant (the "Facility"). The service concession arrangement involve the Target Company as an operator in (i) constructing the Facility for that arrangement on a BOT basis; and (ii) operating and maintaining the Facility at a specified level of serviceability on behalf of the Grantor for a period of 25 years (the "Service Concession Period"), and the Target Company will be paid by the Grantor or the relevant governmental authority for its services over the Service Concession Period at a price stipulated through a pricing mechanism. The Target Company is generally entitled to use all the property, plant and equipment of the Facility, however, the Grantor retains the beneficial entitlement to any residual interest in the Facility at the end of the term of the Service Concession Period. The service concession arrangement is governed by a contract entered into between the Target Company and the Grantor in Mainland China that set out, *inter alia*, performance standards, mechanisms for adjusting price for the services rendered by the Target Company, specific obligations levied on the Target Company to restore the Facility to a specified level of serviceability at the end of the Service Concession Period, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangement are set out as follows:

Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity *(tonnes/day)*	Service concession period
Hengyang, Hunan province hazardous waste treatment plant project	Hengyang, Hunan province, the PRC	Environmental Protection Department of Hunan	BOT	96	25 years from the date of completion of final acceptance*

* *Pursuant to the service concession agreement, the service concession period is 25 years from the date of completion of final acceptance of the construction of Facility by the relevant government authorities, which is expected to be occurred in 2016.*

Pursuant to the service concession agreement entered into by the Target Company, the Target Company is granted with the right to use the land and the property, plant and equipment of the Facility, which are registered under the name of the Target Company, during the Service Concession Period, but the Target Company is required to return the property, plant and equipment to the Grantor at a specified level of serviceability at the end of the respective Service Concession Period under the BOT arrangement. At 31 December 2015, the Target Company was in the process of applying for the completion of final acceptance and certain permits of the Facility from the relevant government authorities. The directors of the Target Company are of the opinion that the Target Company is legitimated to operate the Facility and that the Target Company expects to have no legal barriers or subject to any administrative sanctions in completing of final acceptance of the Facility and obtaining the relevant environmental permits.

As further explained in the accounting policy for "Service concession arrangement" set out in note 4 to the Financial Information, the consideration paid by the Target Company for a service concession arrangement is accounted for as an intangible asset (operating concession).

The following is the summarised information of the intangible asset component (operating concession) with respect to the Target Company's service concession arrangement:

Operating concession

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January:			
Cost	206,627	219,598	242,172
Accumulated amortisation	–	–	(5,314)
Net carrying amount	206,627	219,598	236,858
Net carrying amount:			
At 1 January	206,627	219,598	236,858
Additions	12,971	22,574	7,233
Amortisation provided during the year *(note 9)*	–	(5,314)	(9,110)
At 31 December	219,598	236,858	234,981
At 31 December:			
Cost	219,598	242,172	249,405
Accumulated amortisation	–	(5,314)	(14,424)
Net carrying amount	219,598	236,858	234,981

13. Inventories

Inventories represented raw material used for daily waste treatment operation and spare parts used for daily maintenance of waste treatment plant managed by the Target Company.

14. Trade and bills receivables

	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*
Trade receivables	2,580	3,171	4,743
Bills receivables	–	200	522
	2,580	3,371	5,265

Notes:

(a) The Target Company's trade and bills receivables arise from the provision of hazardous waste treatment services. The Target Company's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months. The Target Company seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing and the Target Company does not hold any collateral or other credit enhancements over its trade and bills receivable balances.

(b) An aged analysis of the trade and bills receivables as at the end of the Relevant Periods, based on the invoice date and net of impairment, is as follows:

	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*
Within 3 months	559	2,999	4,253
4 to 6 months	–	367	390
7 to 12 months	2,021	5	436
Over 1 year	–	–	186
	2,580	3,371	5,265

(c) An aged analysis of trade and bills receivables as at the end of each of the Relevant Periods, that are neither individually nor collectively considered to be impaired is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	354	2,401	2,917
Past due but not impaired:			
Within 3 months	205	825	1,717
4 to 6 months	–	38	50
7 to 12 months	–	107	476
Over 1 year	2,021	–	105
	2,580	3,371	5,265

Trade and bills receivables that were neither past due nor impaired related to the customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to customers that have a good track record with the Target Company. Based on the past experience, the directors of the Target Company are of the opinion that no provision for impairments is necessary of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

There was no provision for impairment of trade and bills receivables during the Relevant Periods.

15. Prepayments, deposits and other receivables

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	350	668	2,929
Other receivables	32	63	556
	382	731	3,485
Portion classified as current assets	(287)	(561)	(1,741)
Non-current portion	95	170	1,744

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. Cash and cash equivalents

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	16,550	9,797	6,410

Notes:

(a) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

17. Trade payables

The trade payables are non-interest-bearing and normally settled within one to six months. An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Billed:			
Within 3 months	2,180	71	738
4 to 6 months	5,023	10	3,474
7 to 12 months	1,429	38	255
Over 1 year	–	3,283	1,404
	8,632	3,402	5,871
Unbilled	27,445	33,143	33,716
	36,077	36,545	39,587

18. Other payables

	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Receipt in advance	869	1,301	1,355
Other payables	88	819	1,535
	957	2,120	2,890

Other payables are non-interest-bearing and have an average term of three months in general.

19. Bank and other borrowings

		2013	2014	2015
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Bank loan, unsecured	*(b)*	27,100	23,200	18,100
Other loan from the immediate holding company, unsecured	*(c)*	–	10,000	5,000
Total bank and other borrowings		27,100	33,200	23,100
Analysed into:				
Bank loan repayable:				
Within one year		3,900	5,100	5,100
In the second year		5,100	5,100	6,200
In the third to fifth years, inclusive		18,100	13,000	6,800
		27,100	23,200	18,100
Other loan repayable within one year		–	10,000	5,000
Total bank and borrowings		27,100	33,200	23,100
Portion classified as current liabilities		(3,900)	(15,100)	(10,100)
Non-current portion		23,200	18,100	13,000

Notes:

(a) The bank and other borrowings of the Target Company are all denominated in RMB.

(b) The bank loan of the Target Company bears an interest at a floating rate of five years or above lending rate from the People's Bank of China plus margin and is guaranteed given by the immediate holding company of the Target Company.

(c) The other loan advances from the immediate holding company of the Target Company bears an interest at a floating rate of one year lending rate from the People's Bank of China.

20. Provision for major overhauls

Pursuant to the service concession agreement entered into by the Target Company, the Target Company has contractual obligations to maintain the Facility it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantor at the end of the Service Concession Period. These contractual obligations to maintain or restore the Facility, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of the Facility during the Relevant Periods are as follows:

		2013	**2014**	**2015**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January		–	–	21
Additional provision	*9*	–	21	38
Increase in discounted amounts arising from the passage of time	*8*	–	–	2
At 31 December		–	21	61

21. Deferred income

At 31 December 2013, 2014 and 2015, deferred income of the Target Company represented government subsidies of RMB95,950,000, RMB93,711,000, and RMB89,873,000 in aggregate, respectively in respect of the Target Company's construction of the Facility in Hengyang, Hunan province, the PRC. These subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

22. Deferred tax liabilities

The deferred tax liabilities represented the temporary difference related to service concession arrangement and its movements during the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	9,239	10,111	10,460
Net deferred tax charged/(credited) to profit or loss *(note 10)*	872	349	(842)
At 31 December	10,111	10,460	9,618

At 31 December 2013 and 2014, deferred tax assets have not been recognised in respect of unused tax losses of RMB2,123,000 and RMB2,123,000, respectively, that would expire in one to five years as they had arisen in the Target Company that had been loss-making for some time and it was not probable that taxable profits would be available against which such tax losses could be utilised.

23. Paid-up capital

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	38,090	38,090	38,090

The capital contribution has been verified by a certified public accountant registered in the PRC.

24. Reserves

(a) The amounts of the Target Company's reserves and the movements therein for the Relevant Periods are presented in the statements of change in equity.

(b) The Target Company's PRC reserve funds are reserves set aside in accordance with the PRC Companies Law. None of the Target Company's PRC reserve funds as at the end of the Relevant Periods was distributed in the form of cash dividends.

25. Contingent liabilities

As disclosed in note 12 to the Financial Information, the final acceptance of the construction of the waste incineration plant has not been obtained from the relevant government authorities and the Target Company is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Target Company may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, as advised by the legal adviser of the Target Company, it is not likely for the Target Company to be liable to the administrative sanctions.

26. Capital commitments

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Service concession arrangement on a BOT basis:			
Contracted, but not provided for	1,446	2,383	1,041

27. Related party transactions

(i) In addition to the transactions detailed elsewhere in the Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Loan interest expense payable to the immediate holding company	–	325	317

The above interest expense was paid for a loan provided by the immediate holding company with an interest rate determined by reference to the prevailing market lending rate, details of which as set out in note 19(c) to the Financial Information.

(ii) Outstanding balances and transactions with related parties

(a) Other than the loan from the immediate holding company as disclosed in note 19 to the Financial Information, the Target Company had no outstanding balance with related parties as at the end of the Relevant Periods.

(b) Details of the guarantee given by the immediate holding company for banking facilities granted to the Target Company are disclosed in note 19(b) to the Financial Information.

(iii) Compensation of key management personnel of the Target Company

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	382	436	538
Post-employment benefits	29	39	41
Total compensation paid to key management personnel	411	475	579

(iv) Transactions with other state-owned entities in Mainland China

The Target Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing Municipal Government and ultimate control of the PRC government. The Target Company operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the Relevant Periods, the Target Company has transactions with Other SOEs including, but not limited to, provision of hazardous waste treatment and construction services, bank deposits and borrowings and utilities consumptions. The directors of the Target Company consider that the transactions with the Other SOEs are activities in the ordinary course of the Target Company's businesses, and that the dealings of the Target Company have not been significantly or unduly affected by the fact that the Target Company and the Other SOEs are ultimately controlled or owned by the PRC government. The Target Company has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors of the Target Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

28. Financial instruments by category

All of the Target Company's financial assets and liabilities as at the end of each of the Relevant Periods were loans and receivables and financial liabilities stated at amortised cost, respectively.

29. Financial risk management objective and policies

The Target Company's principal financial instruments comprise cash and bank balances, and bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The carrying amounts of the Target Company's financial instruments approximated to their fair values as at the end of each of the Relevant Periods as financial instruments included in current assets and current liabilities are with short term maturities and financial instruments included in non-current assets and non-current liabilities are discounted as effective interest rates. Accordingly, no separate disclosure of the fair values of the Target Company's financial instruments is made in the Financial Information.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risks

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company has significant bank and other borrowings (note 19) and bank deposits with floating interest rate which are exposed to cash flow interest-rate risk. During the year, the Target Company has not hedged its cash flow and fair value interest rate risks. The directors of the Target Company consider that the exposure of cash flow interest rate risk on the bank deposits is insignificant as most deposits bear variable interest rates which did not significantly fluctuated in recent years.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of each of the Relevant Periods was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Company's post-tax loss for the year ended 31 December 2013 would increase/decrease by approximately RMB212,000, and the Target Company's post-tax profits for the years ended 31 December 2014 and 2015 would decrease/increase by approximately RMB322,000 and RMB397,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Sensitivity analysis on bank deposits is not presented as the directors of the Target Company consider that the Target Company's exposure to interest rate fluctuations on bank deposits is insignificant.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The carrying amount of trade and bills receivables, deposits and other receivables and cash and cash equivalents included in the Financial Information represent the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Company has no other financial assets which carry significant exposure to credit risk. In respect of these receivables, the Target Company has no significant concentration of credit risk as the customer base of the Target Company is widely dispersed. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant. The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents, and other receivables with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade and bills receivables are disclosed in note 14 to the Financial Information.

Liquidity risk

In light of the capital intensive nature of the Target Company's business, the Target Company ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and capital commitments of the Target Company. The objective of the Target Company is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and funding from its immediate holding company, as well as the strict control over its receivables due in day to day business.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015				
Trade payables	–	39,587	–	39,587
Other payables and accruals	–	1,535	–	1,535
Bank and other borrowings	–	11,026	13,710	24,736
	–	52,148	13,710	65,858
31 December 2014				
Trade payables	–	36,545	–	36,545
Other payables and accruals	–	819	–	819
Bank and other borrowings	–	16,790	19,635	36,425
	–	54,154	19,635	73,789
31 December 2013				
Trade payables	–	36,077	–	36,077
Other payables and accruals	–	88	–	88
Bank loan	–	5,654	26,108	31,762
	–	41,819	26,108	67,927

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital by following the immediate holding company's policies and guidelines and also seeks approval from the board of directors of the Target Company with regard to all capital management matters. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Company monitors capital using a gearing ratio, which is calculated based on the net debts and total equity. Net debts is calculated as bank and other borrowings (as shown in the statements of financial position), less cash and cash equivalents.

The gearing ratios as at the end of the Relevant Periods are as follows:

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	27,100	33,200	23,100
Less: Cash and cash equivalents	(16,550)	(9,797)	(6,410)
Net debts	10,550	23,403	16,690
Total equity	70,323	76,181	85,351
Gearing ratio	15.0%	30.7%	19.6%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

I. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

(a) For the year ended 31 December 2015

Business Review and Prospects

Following the strategic transformation in 2014, the Group has focused its resources on its solid waste treatment business.

During 2015, the Changde Household Waste Incineration Power Generation Project (常德市生活垃圾焚燒發電項目, the "Changde Project"), in Hunan Province handled solid waste of 323,896 tonnes (full year of 2014: 304,469 tonnes) and generated electricity of 101.32 million kWh (full year of 2014: 89.75 million kWh). The Changde Project recorded a total revenue of HK$97.33 million (full year of 2014: HK$82.38 million) and a net profit of HK$39.79 million (full year of 2014: HK$24.71 million).

The Taian Household Waste Incineration Power Generation Project (山東泰安生活垃圾焚燒發電項目, the "Taian Project") in Shandong Province handled solid waste of 333,689 tonnes (full year of 2014: 298,379 tonnes) and generated electricity of 60.86 million kWh (full year of 2014: 60 million kWh). The Taian Project recorded a total revenue of HK$71.51 million (full year of 2014: HK$72.03 million) and a net profit of HK$2.24 million (full year of 2014: HK$5.17 million). The decrease in net profit was mainly due to impairment of long aged trade and other receivables of approximately HK$7.72 million during the year.

The Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant PPP Project (北京市海淀區循環經濟產業園再生能源發電廠PPP項目, the "Haidian Project") is still in the construction stage. The Haidian Project has built up a working team of 60 employees for its facilities installation and testing. In addition, the Group has established a joint venture with Suez Environnement, a French-based utility company which operates largely in the waste management, for providing innovative solutions to the Group's solid waste treatment business and technical monitoring services to the Haidian Project. During the year under review, it has recognised revenue of HK$1,077.87 million and gross profit of HK$26.86 million from the provision of construction services.

During the year under review, the existing information technology business of the Group has generated a total revenue of HK$219.96 million (2014: HK$239.99 million) and driven a minimal net operating profit contribution of HK$0.85 million to the Group. The Group's disposal of its information technology business was in progress. During the year, a net gain of HK$10.94 million was generated from the disposal of a subsidiary engaged in the operation of electronic payment cards in Mainland China. The disposals of the remaining subsidiaries engaged in the system integration, software development and total education solutions in Mainland China were completed in March 2016 and a net gain of approximately HK$70 million is expected to be realised in 2016.

The Changde Project and the Taian Project have been operating smoothly and complied with all the relevant environmental regulations and standards in place. However, both projects have already reached their waste treatment capacities. In order to meet the increasing demand for waste treatment volume in Changde and Taian cities and the emission standards under the new environmental regulations, both projects have proactively conducted complete overhauls and technological upgrade of their existing fluidised bed boilers. The Group has also coordinated with local governments for the feasibility studies of their second phase of construction of additional 600 tonnes/day grate firing boilers.

The Group is well prepared for the trial operation of the Haidian Project to be expected commencing in the second half of 2016. The Company believes that with the commencement of the business operation of the Haidian Project, a remarkable waste incineration plant in Beijing, shall further enlarge the earnings base of the Group in the future.

In addition, the Group is intended for the acquisition of potential solid waste treatment business, and the relevant negotiation is currently underway. The Group aims to rapidly capture the market share of the solid waste treatment industry in Mainland China and create values for the shareholders.

Financial Review

During the year under review, prior to the completion of the disposal of its information technology segment (which has been classified as a discontinued operation) in March 2016, the Group's continuing operations comprised (i) the solid waste treatment segment; and (ii) the corporate and others segment.

Continuing Operations

Revenue and gross profit

During the year under review, the revenue was represented by the provision of solid waste treatment, sales of electricity and sales of steam of the Changde Project and the Taian Project and the provision of construction services of the Haidian Project.

	12 months operation in 2015			8 months operation in 2014
	Changde and Taian Projects	**Haidian Project**	**Total**	**Changde and Taian Projects**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Revenue	168.84	1,077.87	1,246.71	108.52
Cost of sales	(110.93)	(1,051.01)	(1,161.94)	(75.09)
Gross profit	57.91	26.86	84.77	33.43
Gross profit margin	34.3%	2.5%	6.8%	30.8%

The total revenue of the Group was HK$1,246.71 million in 2015, increased by HK$1,138.19 million as compared with HK$108.52 million of last year. The increase was mainly contributed by the revenue from the provision of construction services recognised under the Haidian Project of HK$1,077.87 million during the year.

The Changde Project and the Taian Project contributed revenue of HK$168.84 million during the year and recorded an annualised growth rate of 9.3%. It comprised the provision of waste treatment services of HK$49.50 million (2014: HK$29.26 million) and sale of electricity and steam generated from waste incineration of HK$119.34 million (2014: HK$79.26 million).

Other income and gains, net

The Group's other income and gains in 2015 amounted to HK$52.83 million, as compared with HK$11.80 million in 2014. The other income and gains mainly comprised bank interest income of HK$11.38 million (2014: HK$11.41 million), foreign exchange gain of HK$27.22 million and fair value gain on investment properties of HK$9.16 million.

Administrative expenses

The Group's administrative expenses in 2015 amounted to HK$31.25 million, decreased by HK$0.5 million as compared with HK$31.75 million in 2014. The administrative expenses allocated to the solid waste treatment segment was HK$13.30 million (2014: HK$9.00 million) and the corporate and others segment was HK$17.95 million (2014: HK$22.75 million).

Other operating expenses, net

The Group's other operating expenses in 2015 amounted to HK$10.49 million, as compared with HK$0.28 million in 2014. The other operating expenses mainly comprised the impairment of long aged trade and other receivables of HK$10.26 million.

Finance costs

The Group's finance costs in 2015 was wholly incurred from the convertible bonds subscribed by the immediate holding company of the Company, Idata Finance Trading Limited ("Idata"), of HK$11.35 million, increased by HK$7.12 million as compared with HK$4.23 million in 2014. The increase was due to the issue of convertible bonds with principal amount of HK$700.60 million at the end of December 2014.

Income tax

The Group's income tax charge for 2015 comprised an income tax expense of HK$5.77 million (2014: HK$3.05 million) and a net deferred tax charge of HK$6.94 million (2014: credit of HK$1.65 million), totaling HK$12.71 million, and increased by HK$11.31 million as compared with HK$1.40 million in 2014.

Discontinued operation

The financial performance of the Group's information technology segment in 2015 has a moderate improvement. The segment revenue was HK$219.96 million, decreased by 8.3% as compared with HK$239.99 million in 2014. The other income and gains was HK$16.30 million (included a gain on disposal of a subsidiary of HK$10.94 million). Cost of sales and operating expenses were HK$224.84 million, decreased by 10.1% as compared with HK$250.04 million in 2014. The segment profit was HK$12.25 million, as compared with a loss of HK$2.38 million in 2014.

Profit for the year

Profit for the year amounted to HK$83.99 million, increased by HK$78.84 million as compared with HK$5.15 million in 2014. By excluding the abovementioned foreign exchange gain of HK$27.22 million, fair value gain on investment properties of HK$9.16 million and gain on disposal of a subsidiary in the disposal groups of HK$10.94 million, the adjusted profit for the year amounted to HK$36.67 million, increased by HK$31.52 million as compared with 2014. The increase was resulted from the full year profit contribution from the Changde Project and the Taian Project (8 months for 2014) and the profit generated by the construction services from the Haidian Project of HK$20.14 million during the year.

	Profit/(loss) for the year		Profit/(loss) for the year attributable to shareholders of the Company	
	2015	2014	2015	2014
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Continuing operations				
– Solid waste treatment segment	76.37	25.00	76.01	25.01
– Corporate and others segment	(4.63)	(17.47)	(4.52)	(17.33)
	71.74	7.53	71.49	7.68
Discontinued operation				
– Information technology segment	12.25	(2.38)	11.79	(0.16)
	83.99	5.15	83.28	7.52

The Group's returns on total assets and net assets in 2015 were 1.97% (2014: 0.16%) and 4.00% (2014: 0.25%), respectively.

Financial Position

Investing activities

The Group has no acquisition of subsidiary engaged in the solid waste treatment business during the year under review. In May 2015, the Group has completed the second phase of registered capital injection of RMB107.256 million into its 99% equity owned subsidiary for the investment and operation of the Haidian Project.

In August 2015, the Group has completed the disposal of its 60% equity interest (with relevant shareholder's loan) in Business Net (Hong Kong) Limited and its subsidiary (the "BNHK Group") to an independent third party for a total cash consideration of HK$13 million. The BNHK Group was engaged in the operation of electronic payment cards business and has sustained an operating loss of HK$3.62 million during the 7 months ended 31 July 2015. A gain on disposal of HK$10.94 million was realised by the Group in 2015.

In March 2016, the Group has completed the disposal of its 72% equity interest (with relevant shareholder's loans) in B E Information technology Group Limited and its subsidiaries (the "BEITG Group") to a fellow subsidiary, Beijing Enterprises Group Information Limited (a wholly-owned subsidiary of BEGCL, the ultimate holding company of the Company) for a total cash consideration of HK$126 million. The BEITG Group was engaged in provision of system integration, software development and total education solutions services and has generated an operating profit of HK$6.69 million for the year. A profit on disposal of approximately HK$70 million is expected to be realised by the Group in 2016.

Financing activities

During the year ended 31 December 2015, the number of ordinary shares of the Company in issue has been increased by 3,300,000 to 1,499,360,150 upon the exercise of employees' share options.

Pursuant to the Subscription Agreement, the Company has totally raised HK$1,312 million for its environmental protection projects in 2013 and 2014. By the end of 2015, approximately HK$130 million has been utilised for the Changde Project and the Taian Project and approximately HK$393 million has been utilised for the Haidian Project. The remaining balance of approximately HK$789 million has been placed in a licensed bank in Hong Kong and will be allocated for the capital commitment and working capital of the Haidian Project.

Financial position

As at 31 December 2015, the Group's total assets increased by HK$1,072.60 million to HK$4,265.50 million (including those assets of disposal groups classified as held for sale of HK$342.19 million) and total liabilities increased by HK$1,034.57 million to HK$2,166.57 million (including those liabilities directly associated with assets classified as held for sale of HK$229.23 million) as compared with 31 December 2014. The increase in assets and liabilities was mainly resulted from the recognition of the operating concession of HK$355.06 million, the receivables under services concession arrangement of HK$696.84 million and the related trade payables of HK$1,003.01 million for the construction of the Haidian Project. The Group's net assets increased by HK$38.04 million to HK$2,098.93 million, of which equity attributable to members of the Company amounted to HK$2,074.27 million as at 31 December 2015. The net asset value per share attributable to members of the Company was HK$1.383 (2014: HK$1.37).

Liquidity and financial resources

As at 31 December 2015, the cash and bank balances held by the Group (excluded the disposal groups) amounted to HK$1,862.37 million. During the year, net cash flows from operating activities amounted to HK$270.26 million and the net cash flows used in investing and financing activities amounted to HK$36.75 million and HK$2.82 million, respectively. As at 31 December 2015, the Company has convertible bonds subscribed by Idata with an aggregate principal amount of HK$791 million at an initial conversion price of HK$1.13 per share. The convertible bonds are unsecured, bear interest at 1% per annum and will be matured in February 2018.

As at 31 December 2015, except for the pledged deposits of HK$0.22 million in the disposal groups, the Group had no charge on its assets, did not have any bank borrowings, nor did it hold any financial derivatives. As at 31 December 2015, the Group had a net current assets of HK$944.81 million and its current ratio decreased from 7.56 times to 1.72 times and its total liabilities to assets ratio increased from 35.4% to 50.8% as a result of the progression of the Haidian Project.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. The Group finances its daily operations of the existing business primarily with internally generated cash flow. When the Group comes across with acquisition or investment opportunities, the Group will first utilise the internal funding and arrange for project finance from financial institutions. Depending on its investment needs, the Group may also consider raising fund from the shareholders and potential investors of the Company in compliance with relevant statutory requirements.

Foreign exchange risks

The Group's cash and bank balances were denominated as to 65% in Hong Kong dollars, 23% in Renminbi and 12% in United States dollars. The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. During the year ended 31 December 2015, the Group did not enter into any foreign currencies hedging arrangements.

Capital expenditure and commitment and contingent liabilities

During the year ended 31 December 2015, the total capital expenditures of the Group amounted to HK$408.49 million. As at 31 December 2015, the Group had commitment of RMB92.5 million (equivalent to approximately HK$111.45 million) for the service concession arrangement. Saved as disclosed above, the Group did not have any material capital commitment and contingent liabilities.

Employees and Remuneration Policy

	Number of employees as at 31 December		Total expenses on employee benefits for the year ended 31 December	
	2015	**2014**	**2015**	**2014**
			HK$ million	*HK$ million*
Continuing operations				
– Solid waste treatment segment	259	215	27.74	10.81
– Corporate and others segment	24	28	7.12	6.99
	283	243	34.86	17.80
Discontinued operation				
– Information technology segment	193	223	39.78	37.11
	476	466	74.64	54.91

The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance, ensuring all staff are reasonable remunerated.

Being people-oriented, the Group continues to improve and regularly review and update its policies on staff benefits, training, occupational health and safety. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Work life balance is also emphasised. Regular sports and leisure events were organised to strengthen the bonding with employees.

The Company operates a share option scheme for the Group's employees and directors. During the year ended 31 December 2015, 3,300,000 share options were exercised at an exercise price of HK$1.25 per share. No share option was granted, forfeited or lapsed during the year. As at 31 December 2015, the Company had 39,520,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 2.6% of the Company's ordinary shares in issue as at 31 December 2015.

(b) For the year ended 31 December 2014

Business Review and Prospects

During the year under review, the Group has commenced its strategic transformation, plans to focus its resources on its solid waste treatment business and has decided to cease its information technology business.

At the end of April 2014, the Group completed the acquisition of the entire equity interests in two solid waste incineration plants in operation in Mainland China, namely 泰安生活垃圾焚燒發電項目 Taian Household Waste Incineration Power Generation Project (the "Taian Project") in Shandong Province and 常德市生活垃圾焚燒發電項目 Changde Household Waste Incineration Power Generation Project (the "Changde Project") in Hunan Province.

The Taian Project is equipped with two 500 tonnes/day fluidized bed boilers and two 6MW and 12MW condensing steam turbines, respectively, and is operated on a Build-Own-Operate ("BOO") basis for a licensed period of 30 years commencing from 2008. For the whole year of 2014, the Taian Project handled solid waste of 298,379 tonnes (2013: 307,266 tonnes), generated on-grid electricity of 60.00 million kWh (2013: 60.85 million kWh), recorded a total revenue of HK$72.03 million (2013: HK$72.17 million) and a net profit of HK$5.17 million (2013: HK$9.60 million), respectively.

The Changde Project is equipped with two 400 tonnes/day fluidised bed boilers and two 12MW condensing steam turbines, and is operated on a Build-Operate-Transfer ("BOT") basis for a licensed period of 27 years commencing from 2010. For the whole year of 2014, the Changde Project handled solid waste of 304,469 tonnes (2013: 275,091 tonnes), generated on-grid electricity of 89.75 million kWh (2013: 71.17 million kWh), recorded a total revenue of HK$82.38 million (2013: HK$69.30 million) and a net profit of HK$24.71 million (2013: HK$27.33 million), respectively.

In the second half of 2014, the Group has established a 99% equity owned joint venture (the "Haidian Licensed Company") for the investment and operation of a solid waste incineration plant in Beijing, namely 北京市海淀區循環經濟產業園再生能源發電廠PPP項目 Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Plant PPP Project (the "Haidian Project"). The total investment amount of the Haidian Project shall be RMB1,525 million and is operated on a Public-Private-Partnership ("PPP") basis. The Haidian Project has household waste treatment capacity of 2,500 tonnes/day, including household waste incineration of 2,100 tonnes/day (equipped with three 600 tonnes/day mechanical grate incinerators and two 20MW steam turbine generators) and kitchen waste biochemical treatment of 400 tonnes/day.

On 26 December 2014, the Haidian Licensed Company entered into a licensed operation agreement and under which the Haidian Licensed Company has been granted from the relevant government authority the exclusive right for the operation of the Haidian Project for 30 years from the date of commercial operation at a licensed operation fee of RMB925 million to be payable before the date of commercial operation. The Haidian Project is still under construction and is expected to be transferred and put into operation by the end of 2016. The Group has established a joint venture with Suez Environment, a French-based utility company which operates largely in the water and waste management, for the provision of technical monitoring services to the Haidian Project.

During the year under review, the system integration business under the Group's information technology segment remained stagnant. The new construction contracts carried out during the year included Beijing Subway Automatic Fare Collection Piecewise Charges Upgrade System and China National Offshore Oil Corporation Data Centre. The provision of total solution services to Beijing elementary education and universities, including network operation, internet access service, network service, software development, student smartcard operation and data operation, has moderate improvement as compared with last year.

During the last quarter of 2014, the Group has entered into agreements for the disposals of its interests in subsidiaries engaged in information technology business. The disposals were completed in March 2016.

The acquisition of the Taian Project and the Changde Project was the first step of the Group's strategic transformation. The Group has been carrying out the feasibility studies in respect of the expansion of the current capacities and the second phases of the projects. The Group will closely monitor the progress of the completion of the construction of the Haidian Project and its transfer in the coming months. The Company believes that the investment and operation of the Haidian Project, a waste incineration plant in Beijing, shall build a stronger business foundation and enlarge the source of income of the Group.

In addition, the Group has the intention and is under negotiations to acquire potential solid waste treatment business and is also actively exploring other new opportunities through organic growth and strategic acquisitions to swiftly capture market share in the solid waste treatment sector in the PRC, thereby creating value for the shareholders.

Financial Review

During the year under review, the Group commenced the solid waste treatment business upon the acquisition of the Taian Project and the Changde Project. The Group's reportable operating segments are structured as (i) the solid waste treatment segment; (ii) the information technology segment; and (iii) the corporate and others segment.

The Group's information technology segment is currently undertaken by the subsidiaries of B E Information Technology Group Limited ("BEITG") and Business Net (Hong Kong) Limited ("BNHK"), both are indirectly-owned subsidiaries of the Company. As at 31 December 2014, as a result of the proposed disposals of BEITG and BNHK, BEITG, BNHK and their respective subsidiaries were classified as disposal groups held for sale and the information technology segment was classified as a discontinued operation. Certain comparative amounts have been restated and reclassified.

Continuing Operations

Revenue

The Group's revenue in 2014 comprised the provision of solid waste treatment services of HK$29.26 million, sale of electricity and steam generated from waste incineration of HK$79.26 million from the Taian Project and the Changde Project during the post-acquisition period from May to December 2014, representing a year-to-year growth of 9.2% as compared with the pre-acquisition year of 2013.

Cost of sales

The Group's corresponding cost of sales in 2014 was HK$75.09 million.

Gross profit

The Group recorded a gross profit of HK$33.43 million and a gross profit margin of 30.8% in 2014.

Other income and gains, net

The Group's other income and gains, net in 2014 amounted to HK$11.80 million, as compared with HK$10.20 million in 2013. The other income mainly comprised bank interest income of HK$11.41 million, increased by HK$1.70 million as compared with HK$9.71 million in 2013.

Administrative expenses

The Group's administrative expenses in 2014 was HK$31.75 million, of which HK$9.00 million was incurred by the solid waste treatment segment and HK$22.75 million was incurred by the corporate and others segment, increased by HK$9.45 million as compared with HK$22.30 million in 2013.

Other operating expenses, net

The Group's other operating expenses in 2014 amounted to HK$0.28 million, as compared with HK$1.96 million in 2013.

Finance costs

The Group's finance costs incurred from the convertible bonds subscribed by the immediate holding company, Idata Finance Trading Limited ("Idata"), in 2014 was HK$4.23 million, decreased by HK$3.42 million as compared with HK$7.65 million in 2013.

Income tax

The Group's income tax expense for 2014 was HK$1.40 million, compared with the income tax credit of HK$0.04 million in 2013.

Discontinued operation

The total revenue of the information technology segment in 2014 was HK$239.99 million, an increase of 24.3% as compared with HK$193.07 million in 2013. The other income and gains, net (including the gain on deemed disposal of interests in an associate, China Information Technology Development Limited ("CITD"), of HK$22.88 million) was HK$26.75 million, as compared with HK$7.65 million in 2013. Cost of sales and operating expenses was HK$269.59 million, as compared with HK$210.64 million in 2013. Share of net profits of a joint venture and associates was HK$0.60 million, as compared with HK$2.48 million in 2013.

Profit for the year

	Profit/(loss) for the year		**Profit/(loss) for the year attributable to shareholders of the Company**	
	2014	**2013**	**2014**	**2013**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Continuing operations				
– Solid waste treatment segment	25.00	–	25.01	–
– Corporate and others segment	(17.47)	(21.66)	(17.33)	(21.52)
	7.53	(21.66)	7.68	(21.52)
Discontinued operation				
– Information technology segment	(2.38)	(7.45)	(0.16)	(2.96)
	5.15	(29.11)	7.52	(24.48)

Financial Position

Investing activities

On 29 April 2014, the Group completed the acquisition of the entire equity interests in the Taian Project and the Changde Project for a total consideration of RMB520 million. The consideration was satisfied as to RMB86.79 million by cash and RMB433.21 million by the issue of 347 million ordinary shares of the Company at an issue price of HK$1.60 per share (fair value of which on issue date was HK$2.36 per share). The fair value of the identifiable net assets of the Taian Project and the Changde Project as at the date of acquisition was HK$766.64 million, including property, plant and equipment of HK$223.19 million, prepaid land lease payments of HK$26.25 million, operating concession of HK$397.40 million and other intangible assets of HK$106.41 million, deferred tax liabilities of 62.09 million and other net current assets of HK$75.48 million. Goodwill on acquisition was HK$160.16 million and net cash outflow arising from acquisition was HK$60.94 million.

On 18 August 2014, the Group disposed of 189,551,344 ordinary shares of CITD, representing approximately 7.03% of its issued share capital, at a consideration of HK$22.94 million. After the disposal, the Group ceased to have any equity interest in CITD. During the year under review, the investment in CITD contributed a net profit to the shareholders of the Company of HK$2.31 million.

In the second half of 2014, the Group has established the Haidian Licensed Company with an ultimate registered capital and total investment amount of RMB308.34 million and RMB925 million, respectively. In November 2014, the Group has injected an initial registered capital of RMB198 million.

On 9 October 2014, the Group entered into an equity transfer agreement for the disposal of its 60% equity interest in BNHK and the shareholder's loan owed by BNHK to the Group at a total consideration of HK$13 million. The disposal of BNHK was completed in August 2015.

On 23 December 2014, the Group entered into an equity transfer agreement with a fellow subsidiary, Beijing Enterprises Group Information Limited (a wholly-owned subsidiary of Beijing Enterprises Group Company Limited, the ultimate holding company of the Company), pursuant to which the Group conditionally agreed to dispose of its 72% equity interest in BEITG and the shareholders' loans owed by BEITG and its subsidiaries to the Group at a total consideration of HK$126 million. Subject to the approval of the independent shareholders of the Company, the disposal of BEITG was completed in March 2016.

Financing activities

On 28 February 2013, pursuant to the Subscription Agreement, Idata subscribed for the issue of 177 million new ordinary shares of the Company at a price of HK$1.13 per share and firm convertible bonds of the Company in the principal amount of HK$300.58 million at an initial conversion price of HK$1.13 per share. The net proceeds of HK$498.61 million was intended to be used for investment in environmental protection and solid waste treatment business, as described in the circular of the Company dated 21 December 2012. In addition, pursuant to the Subscription Agreement and subject to the Company's satisfaction of certain pre-conditions to giving notice to Idata, the Company shall have the right to require Idata to subscribe for such amount of standby convertible bonds of an aggregate principal amount of HK$3,000.15 million with an initial conversion price of HK$1.13 per share as the Company may consider appropriate.

On 24 April 2014, Idata subscribed for part of the standby convertible bonds of the Company in the principal amount of HK$113 million to finance the cash consideration of the acquisition of the Taian Project and the Changde Project of HK$107.88 million and related expenses, as described in the circular of the Company dated 27 March 2014.

On 25 April 2014, certain convertible bonds of the Company with an aggregate principal amount of HK$323.18 million were converted into 286 million ordinary shares of the Company at the conversion price of HK$1.13 per share.

On 29 April 2014, 347 million ordinary shares of the Company were issued as consideration shares for the acquisition of the Taian Project and the Changde Project.

On 29 December 2014, Idata subscribed for part of the standby convertible bonds in the principal amount of HK$700.6 million, and together with the net proceeds of HK$498.61 million from the issue of new ordinary shares and firm convertible bonds received on 28 February 2013, to finance its share of capital commitment for the Haidian Licensed Company of RMB921.92 million and the general working capital of the Haidian Project, as described in the circular and announcement of the Company dated 10 October 2014 and 29 December 2014, respectively. As at 31 December 2014, the Company has paid HK$250 million as initial registered capital of the Haidian Licensed Company and the remaining balance of the proceeds of HK$1,019.21 million has been placed in licensed banks in Hong Kong to generate interest income.

As a consequence, during the year ended 31 December 2014, the number of ordinary shares of the Company in issue has been increased by 641,100,000 to 1,496,060,150, including 8,100,000 ordinary shares issued upon the exercise of share options during the year.

Financial position

As at 31 December 2014, the Group's total assets increased by HK$1,761.02 million to HK$3,192.90 million (including those assets of disposal groups classified as held for sale of HK$321.75 million) and total liabilities increased by HK$629.20 million to HK$1,132.01 million (including those liabilities directly associated with assets classified as held for sale of HK$218.70 million) as compared with 31 December 2013. The Group's net assets increased by HK$1,131.83 million to HK$2,060.89 million, of which equity attributable to shareholders of the Company amounted to HK$2,053.67 million as at 31 December 2014.

Liquidity and financial resources

As at 31 December 2014, the cash and bank balances held by the Group (excluded the disposal groups) amounted to HK$1,692.47 million. During the year, net cash flows used in operating activities amounted to HK$123.56 million, net cash flows used in investing activities amounted to HK$58.93 million and net cash flows from financing activities HK$824.66 million. As at 31 December 2014, the Company has outstanding convertible bonds subscribed by Idata with an aggregate principal amount of HK$791 million at an initial conversion price of HK$1.13 per share. The convertible bonds are unsecured, bear interest at 1% per annum and will be matured in February 2018.

As at 31 December 2014, the Group had no charge on its assets, did not have any bank borrowings, nor did it hold any financial derivatives. As at 31 December 2014, the Group had a net current assets of HK$1,912.26 million and its current ratio increased from 5.79 times to 7.56 times and total liabilities to assets ratio increased from 35.1% to 35.5%.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. The Group finances its daily operations of the existing business primarily with internally generated cash flow. When the Group comes across with acquisition or investment opportunities, the Group will first utilise the internal funding and arrange for project finance from financial institutions. Depending on its investment needs, the Group may also consider raising fund from the shareholders and potential investors of the Company in compliance with relevant statutory requirements.

Foreign exchange risks

The Group's cash and bank balances were denominated as to 71% in Hong Kong dollars and 29% in Renminbi. The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. During the year ended 31 December 2014, the Group did not enter into any foreign currencies hedging arrangements.

Capital expenditure and commitment and contingent liabilities

During the year ended 31 December 2014, the total capital expenditures of the Group amounted to HK$771.00 million, including the acquisition of the Taian Project and the Changde Project in April 2014 amounted to HK$753.25 million. As at 31 December 2014, the Group had capital commitment of RMB925 million (equivalent to HK$1,156.25 million) for the operating concession of the Haidian Project and HK$8 million for the balance payment of a property. The Group did not have any material contingent liabilities.

Employees and Remuneration Policy

	Number of employees as at 31 December		**Total expenses on employee benefits for the year ended 31 December**	
	2014	**2013**	**2014**	**2013**
			HK$ million	*HK$ million*
Continuing operations				
– Solid waste treatment segment	215	–	10.81	–
– Corporate and others segment	28	26	6.99	6.75
	243	26	17.80	6.75
Discontinued operation				
– Information technology segment	223	216	37.11	36.70
	466	242	54.91	43.45

The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

The Company operates a share option scheme for the Group's employees and directors. During the year ended 31 December 2014, no share option was granted, forfeited or lapsed and 8,100,000 share options were exercised at an exercise price of HK$1.25 per share. As at 31 December 2014, the Company had 42,820,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 2.9% of the Company's ordinary shares in issue as at 31 December 2014.

(c) For the year ended 31 December 2013

Business Review and Prospects

During the year under review, in order to improve the operating results and enhance the competitive edge, the Group has continuously exploring new business lines, new profit models and new market resources with its existing information technology business. In system integration sector, the Group has secured the successful implementation of its existing Beijing subway projects, namely the Automated Fare Collection System Phase II for Line 8 and the Passenger Information System Phase II for Line 10. The new outsourcing services have been operating smoothly, and the 12333 Hotline Calling Centre of Beijing Municipal Human Resources and Social Security Bureau has commenced operation officially. Besides, the Group has preliminarily constructed a supply platform for spare parts in response to the huge operating demands for the mechanical and electrical system of the subway, which will become another spotlight to the system integration business. In information technology services sector, the Group has been continuing to focus in providing stable network operation, software development, education smartcard operation and data operation services for the education sector in Beijing. Over the year, the Group has improved its overall gross profit margin and cash inflow from operating activities.

The Group has committed to commence its strategic transformation to enter the waste incineration power generation industry through restructuring its existing business portfolio and investing in environmental protection and waste-to-energy industry.

In June 2012, the Group has announced its proposed capital injection into a joint venture for investing, constructing and operating the Beijing Haidian District Cyclic Economy Industrial Park Renewable Energy Power Generation Project (the ''Haidian Project''). The Haidian Project is a waste incineration power generation project under construction in Beijing and has a daily waste treatment capacity of 2,500 tonnes. During the pre-acquisition period, the Group is at present negotiating the transaction structure, the major operation terms during the operation period, including the waste treatment fee, the guaranteed level of waste supply and the on-grid tariff for waste-generated power, and any other terms and conditions with the relevant government authorities in Beijing. The Board is pleased to present details of the proposed investment in the Haidian Project for the shareholders' approval in due course.

In September 2012, the Group has announced that it has entered into a framework agreement in respect of its possible acquisition of the equity interest in Green Energy Holding Company Limited, which has investment in and operates 15 waste incineration power generation projects in the PRC. However, after the prolonged and extensive due diligence review work done, the negotiation has been failed eventually and the Group has announced the termination of the framework agreement with effect from December 2013. The Board considers that the participation into the waste incineration power generation industry is the right decision to deliver value to the shareholders of the Company, though the path of successful strategic transformation is meandering and circuitous.

In February 2014, the Group has further announced that it has entered into a sale and purchase agreement in respect of its possible acquisition of entire interests in Taian Household Waste Incineration Power Generation Project and Changde Household Waste Incineration Power Generation Project in Shandong and Hunan, respectively, at an aggregate consideration of RMB520 million. The consideration will be satisfied as to RMB86.79 million in cash and as to RMB433.21 million by the issue of consideration shares. Both projects are in business operation and have aggregated daily waste treatment capacity of 1,800 tonnes. Details of the possible acquisition may be referenced to the circular of the Company dated 27 March 2014. The Board considers that the possible acquisition represents an opportunity to the Group to establish an immediate presence in environmental protection and waste-to-energy industry in the PRC.

Financial Review

Revenue

Provision of information technology related services in Mainland China is a single reportable operating segment of the Group. The Group's revenue in 2013 was HK$193.07 million, decreased by 7.4% as compared with HK$208.39 million in 2012. This was mainly due to the decrease in revenue generated from system integration contracts during the year.

Cost of sales

The Group's cost of sales in 2013 was HK$156.17 million, decreased by 16.9% as compared with HK$187.86 million in 2012.

Gross profit/(loss)

The Group recorded a gross profit of HK$36.89 million in 2013, increased by 79.7% as compared with HK$20.53 million in 2012. The overall gross profit margin increased from 9.9% to 19.11%. The increase was mainly due to the increase in proportion of maintenance contracts which contributed higher profit margins.

Other income and gains, net

The Group's other income and gains, net in 2013 amounted to HK$17.85 million (2012: HK$31.99 million), mainly comprised of bank interest income of HK$12.37 million and gain on disposal of the entire equity interests in a subsidiary, Alison Development Limited ("Alison"), of HK$1.54 million. Gains on deemed partial disposals of interests in an associate, China Information Technology Development Limited ("CITD"), of HK$9.59 million was recorded in 2012.

Selling and distribution expenses

The Group's selling and distribution expenses in 2013 increased by 11.0% to HK$6.57 million, as compared with HK$5.92 million in 2012.

Administrative expenses

The Group's administrative expenses in 2013 increased by 0.4% to HK$65.44 million, as compared with HK$65.17 million in 2012.

Other operating expenses, net

The Group's other operating expenses in 2013 amounted to HK$6.24 million (2012: HK$1.15 million), mainly comprised of impairment of trade and other receivables of HK$5.83 million in aggregate.

Finance costs

The Group's finance costs in 2013 amounted to HK$8.12 million (2012: HK$4.51 million), mainly comprised of the coupon and the imputed interest on the convertible bonds issued during the year of HK$2.53 million and HK$5.12 million, respectively.

Share of profits and losses of a joint venture

The Group's 50% share of net loss of a joint venture, Beijing Education Information Network Services Center Co., Ltd., in 2013 amounted to HK$0.29 million (2012: net profit of HK$0.68 million).

Share of profits and losses of associates

The Group's share of net profit of associates of HK$2.77 million in 2013 (2012: net loss of HK$2.96 million) substantially represented its 21.1% share of net profit (including a gain on disposal of its subsidiaries) of CITD of HK$2.73 million.

Loss and total comprehensive loss for the year

The loss for the year ended 31 December 2013 was HK$29.11 million, increased by HK$2.46 million or 9.2% as compared with the loss of HK$26.65 million in 2012. The loss attributable to shareholders of the Company for the year ended 31 December 2013 was HK$24.48 million, increased by HK$5.65 million or 30.0% as compared with the loss of HK$18.83 million in 2012.

The other comprehensive income for the year ended 31 December 2013 amounted to HK$16.08 million (2012: loss of HK$1.72 million), mainly comprised of exchange fluctuation reserve on translation of foreign operations. The total comprehensive loss for the year ended 31 December 2013 was HK$13.03 million, decreased by HK$15.34 million as compared with the loss of HK$28.37 million in 2012. The total comprehensive loss attributable to shareholders of the Company for the year ended 31 December 2013 was HK$10.29 million, decreased by HK$10.27 million as compared with the loss of HK$20.56 million in 2012.

Financial Position

During the year ended 31 December 2013, the authorised share capital of the Company has increased by HK$4 billion to HK$5 billion and the issued share capital has increased by HK$177.50 million to HK$854.96 million as a result of (i) the subscription by its holding company of 177,000,000 new shares at HK$1.13 per share; and (ii) the exercise of 500,000 share options by its employee. Saved for the disposal of the entire equity interests in Alison, with its sole investment in 59.5% equity interest of 北京北控文化體育有限公司, to an indirectly wholly-owned subsidiary of Beijing Enterprises Group Company Limited, at a cash consideration of HK$8.50 million, the Group had made no material investment, acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2013.

As at 31 December 2013, the Group had total assets and total liabilities of HK$1,431.88 million and HK$502.82 million, respectively, increased by HK$466.35 million and HK$252.47 million, respectively, as compared with 31 December 2012. The net assets of the Group increased by HK$213.88 million from HK$715.18 million to HK$929.06 million, of which equity attributable to shareholders of the Company amounted to HK$921.33 million as at 31 December 2013.

The Group adopts a prudent approach in cash and financial management to ensure proper risk control and low costs of funds. The Group finances its daily operations of the existing business primarily with internally generated cash flow and existing banking facilities. When the Group comes across with acquisition or investment opportunities, the Group will first utilise the internal funding and arrange for project finance from financial institutions. Depending on its investment needs, the Group may also consider raising fund from the shareholders and potential investors of the Company and will comply with the applicable requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as may be required.

As at 31 December 2013, the cash and bank balances held by the Group amounted to HK$1,177.19 million, of which HK$3.20 million were pledged as tender deposits to secure certain system integration contracts of the Group. The Group has no further charge on its assets as at 31 December 2013. During the year ended 31 December 2013, the Company has issued convertible bonds of an aggregate principal amount of HK$300.58 million and an initial conversion price of HK$1.13 per share to its holding company for financing its potential investment in waste incineration power generation projects. The convertible bonds bear interest at 1% per annum and maturity of five years. Except for the convertible bonds, the Group did not have any bank borrowings, nor did it hold any financial derivatives. As at 31 December 2013, the Group had a net current assets of HK$1,069.72 million and its current ratio was increased from 4.22 times to 5.79 times and total liabilities to assets ratio was increased from 25.9% to 35.1%.

The Group's cash and bank balances were denominated as to 64% in Hong Kong dollars and 36% in Renminbi. The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, the Group will be subject to translational foreign exchange risk. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss and the gains or losses arising on retranslation of foreign operations are recognised in the exchange fluctuation reserve. During the year ended 31 December 2013, the Group did not enter into any foreign currencies hedging arrangements.

During the year ended 31 December 2013, the Group had capital expenditures for acquisition of equipment and intangible assets of HK$2.7 million. As at 31 December 2013, save as the potential investment in waste incineration power generation projects, the Group had capital commitment of HK$8.2 million for the balance payment of a property. The Group did not have any material contingent liabilities.

Employees and Remuneration Policy

As at 31 December 2013, the number of employees of the Group had reduced to approximately 240 as compared with 2012, the reduction was mainly caused by the disposal of Alison during the year. The Group's total expenses on employee benefits in 2013 amounted to HK$43.45 million, decreased by 5.1% as compared with HK$45.79 million in 2012. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

The Company has operated a share option scheme for the Group's employees and directors. Except for 500,000 share options were exercised, no share option was granted, exercised, forfeited or lapsed during the year ended 31 December 2013. As at 31 December 2013, the Company had 50,920,000 share options outstanding, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 6.0% of the Company's ordinary shares in issue as at 31 December 2013.

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, set out in Appendices IIIA, IIIB, IIIC, IIID and IIIE "Accountants' Report of GSWM", "Accountants' Report of Ha'erbin Shuangqi", "Accountants' Report of Beikong Shuyang", "Accountants' Report of Beikong Wenchang" and "Accountants' Report of Hunan Hengxing" to this Circular, respectively, and are included to herein for information only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Beijing Development (Hong Kong) Limited (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**"), Golden State Waste Management Corporation ("**GSWM**") and its subsidiaries (hereafter collectively referred to as the "**GSWM Group**"), 哈爾濱市雙琦環保資源利用有限公司 ("**Ha'erbin Shuangqi**"), 北控環境再生能源沭陽有限公司 ("**Beikong Shuyang**"), 北控環境(文昌)再生能源有限公司 ("**Beikong Wenchang**") and 湖南衡興環保科技開發有限公司 ("**Hunan Hengxing**") (hereafter collectively referred to as the "**Enlarged Group**") has been prepared by the directors of the Company (the "**Directors**") in accordance with Rule 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of illustrating the effect of the proposed acquisition of the entire equity interest of the GSWM Group, 80% equity interest of Ha'erbin Shuangqi, entire equity interest of Beikong Shuyang, entire equity interest in Beikong Wenchang and 65% equity interest in Hunan Hengxing (the "**Acquisition**").

The Unaudited Pro Forma Financial Information of the Enlarged Group have been prepared as if the Acquisition have been completed (the "**Completion**") on 31 December 2015 for the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma statement of cash flows of the Enlarged Group have been prepared based on: (i) the audited consolidated statement of financial position as at 31 December 2015, the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2015, which was extracted from the published annual report of the Company for the year ended 31 December 2015 dated 31 March 2016; (ii) the audited consolidated statement of financial position as at 31 December 2015, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the GSWM Group for the year ended 31 December 2015, which have been extracted from the accountants' report as set out in Appendix IIIA to this Circular; and (iii) the audited statement of financial position as at 31 December 2015, the audited statement of profit or loss and other comprehensive income and the audited statement of cash flows of each of Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing for the year ended 31 December 2015, which have been extracted from the accountants' reports as set out in Appendices IIIB, IIIC, IIID and IIIE, respectively, to this Circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition as explained in the accompanying notes that are directly attributable to the Acquisition and not relating to future events or decisions, and are factually supportable.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates, uncertainties, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual results of operations, financial position or cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future results of operations, financial position or cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2015, the accountants' reports of each of the GSWM Group, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing as set out in Appendices IIIA, IIIB, IIIC, IIID and IIIE, respectively, to this Circular, the Company's announcement dated 31 March 2016 and other financial information included elsewhere in this Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

As at 31 December 2015

	The Group	The Target Companies: The GSWM Group	Ha'erbin Shuangqi	Beikong Shuyang	Beikong Wenchang	Hunan Hengxing	Total	Total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*		*(note 2)*			
NON-CURRENT ASSETS											
Property, plant and equipment	218,829	426,308	1,426	496	257	1,156	429,643	517,642			736,471
Investment properties	93,592	–	–	–	–	–	–	–			93,592
Prepaid land lease payments	24,359	25,313	–	–	–	–	25,313	30,498			54,857
Goodwill	160,161	23,617	–	–	–	–	23,617	28,454	(28,454)	3(a)	1,206,789
									1,046,628	3(a)	
Operating concessions	711,820	333,420	533,073	191,710	–	234,981	1,293,184	1,558,053			2,269,873
Other intangible assets	95,211	–	5	–	–	–	5	6			95,217
Investment in joint venture	5,894	–	–	–	–	–	–	–			5,894
Receivables under service concession arrangements	690,395	563,402	292,874	116,252	36,905	–	1,009,433	1,216,184			1,906,579
Prepayments, deposits and other receivables	2,278	8,257	16,230	–	648	1,744	26,879	32,384			34,662
Deferred tax assets	2,629	–	–	–	688	–	688	829			3,458
Total non-current assets	2,005,168	1,380,317	843,608	308,458	38,498	237,881	2,808,762	3,384,050			6,407,392
CURRENT ASSETS											
Prepaid land lease payments	–	560	–	–	–	–	560	675			675
Inventories	3,913	7,799	1,145	125	279	198	9,546	11,501			15,414
Receivables under service concession arrangements	6,443	19,441	3,933	1,924	2,651	–	27,949	33,673			40,116
Trade and bill receivables	28,890	44,430	8,576	11,183	5,627	5,265	75,081	90,459			119,349
Prepayments, deposits and other receivables	16,522	333,757	1,659	4,386	315	1,741	341,858	411,877	21,237	3(d)	445,419
									(4,217)	3(e)	
Income tax recoverable	–	–	–	–	211	–	211	254			254
Other taxes recoverable	–	–	20,201	11,987	–	–	32,188	38,781			38,781
Pledged deposits	–	37,361	11,829	–	29	–	49,219	59,300			59,300
Cash and bank balances	1,862,369	116,554	53,006	21,563	2,243	6,410	199,776	240,694	(20,000)	3(f)	2,083,063
	1,918,137	559,902	100,349	51,168	11,355	13,614	736,388	887,214			2,802,371
Assets of disposal groups classified as held for sale	342,193	48,836	–	–	–	–	48,836	58,839	(58,839)	3(d)	342,193
Total current assets	2,260,330	608,738	100,349	51,168	11,355	13,614	785,224	946,053			3,144,564

		The Target Companies									
	The Group *HK$'000* *(note 1)*	The GSWM Group *RMB'000* *(note 2)*	Ha'erbin Shuangqi *RMB'000* *(note 2)*	Beikong Shuyang *RMB'000* *(note 2)*	Beikong Wenchang *RMB'000* *(note 2)*	Hunan Hengxing *RMB'000* *(note 2)*	Total *RMB'000*	Total *HK$'000* *(note 2)*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
CURRENT LIABILITIES											
Trade payables	1,010,695	32,124	88,713	51,681	2,245	39,587	214,350	258,253			1,268,948
Other payables and accruals	58,296	514,697	1,301	721	11,290	2,890	530,899	639,638			697,934
Income tax payables	17,299	9,090	–	–	–	567	9,657	11,635			28,934
Other taxes payables	–	9,437	809	–	228	448	10,922	13,159			13,159
Bank and other borrowings	–	195,885	20,000	10,000	13,253	10,100	249,238	300,287			300,287
	1,086,290	761,233	110,823	62,402	27,016	53,592	1,015,066	1,222,972			2,309,262
Liabilities directly associated with assets classified as held for sale	229,227	35,621	–	–	–	–	35,621	42,917	(42,917)	*3(d)*	229,227
Total current liabilities	1,315,517	796,854	110,823	62,402	27,016	53,592	1,050,687	1,265,889			2,538,489
NET CURRENT ASSETS/(LIABILITIES)	944,813	(188,116)	(10,474)	(11,234)	(15,661)	(39,978)	(265,463)	(319,836)			606,075
TOTAL ASSETS LESS CURRENT LIABILITIES	2,949,981	1,192,201	833,134	297,224	22,837	197,903	2,543,299	3,064,214			7,013,467
NON-CURRENT LIABILITIES											
Bank and other borrowings	–	541,000	460,000	141,720	5,000	13,000	1,160,720	1,398,458	(4,217)	*3(e)*	1,394,241
Provision for major overhauls	–	2,373	49	29	224	61	2,736	3,296			3,296
Deferred income	–	8,644	39,231	7,800	–	89,873	145,548	175,359			175,359
Convertible bonds	783,385	–	–	–	–	–	–	–	2,107,566	*3(a)(i)*	2,890,951
Deferred tax liabilities	67,671	40,634	36,367	14,705	–	9,618	101,324	122,077			189,748
Total non-current liabilities	851,056	592,651	535,647	164,254	5,224	112,552	1,410,328	1,699,190			4,653,595
Net assets	2,098,925	599,550	297,487	132,970	17,613	85,351	1,132,971	1,365,024			2,359,872

		The Target Companies									
	The Group *HK$'000* *(note 1)*	The GSWM Group *RMB'000* *(note 2)*	Ha'erbin Shuangqi *RMB'000* *(note 2)*	Beikong Shuyang *RMB'000* *(note 2)*	Beikong Wenchang *RMB'000* *(note 2)*	Hunan Hengxing *RMB'000* *(note 2)*	Total *RMB'000*	Total *HK$'000* *(note 2)*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
EQUITY											
Share capital	2,225,723	579,336	240,000	85,190	20,000	38,090	962,616	1,159,778	(1,159,778)	*3(b)*	2,225,723
Equity component of convertible bonds	11,658	–	–	–	–	–	–	–	94,734	*3(a)(i)*	106,392
Other reserves	(163,113)	(45,193)	57,487	47,780	(2,387)	47,261	104,948	126,442	(132,023)	*3(b)*	(183,113)
									5,581	*3(d)*	
									(20,000)	*3(f)*	
	2,074,268	534,143	297,487	132,970	17,613	85,351	1,067,564	1,286,220			2,149,002
Non-controlling interests	24,657	65,407	–	–	–	–	65,407	78,804	107,675	*3(c)*	210,870
									(266)	*3(d)*	
Total equity	2,098,925	599,550	297,487	132,970	17,613	85,351	1,132,971	1,365,024			2,359,872

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP

For the year ended 31 December 2015

		The Target Companies									
	The Group *HK$'000* *(note 1)*	**The GSWM Group** *RMB'000* *(note 2)*	**Ha'erbin Shuangqi** *RMB'000* *(note 2)*	**Beikong Shuyang** *RMB'000* *(note 2)*	**Beikong Wenchang** *RMB'000* *(note 2)*	**Hunan Hengxing** *RMB'000* *(note 2)*	**Total** *RMB'000*	**Total** *HK$'000* *(note 2)*	**Pro forma adjustments** *HK$'000*	*Notes*	**Pro forma Enlarged Group** *HK$'000*
CONTINUING OPERATIONS											
REVENUE	1,246,706	318,574	193,284	32,895	13,870	57,027	615,650	760,062	(57,779)	3(d)	1,948,989
Cost of sales	(1,161,936)	(183,261)	(155,459)	(19,335)	(9,928)	(43,219)	(411,202)	(507,657)	49,384	3(d)	(1,620,209)
Gross profit	84,770	135,313	37,825	13,560	3,942	13,808	204,448	252,405			328,780
Other income and gains, net	52,832	30,986	2,286	774	–	1,671	35,717	44,095	(1,966)	3(d)	94,961
Selling and distribution expenses	–	–	–	–	–	(1,026)	(1,026)	(1,267)			(1,267)
Administrative expenses	(31,251)	(27,523)	(3,726)	(2,043)	(1,896)	(3,212)	(38,400)	(47,408)	4,922	3(d)	(93,737)
									(20,000)	3(f)	
Other operating expenses, net	(10,486)	(16,635)	–	–	–	–	(16,635)	(20,537)	35	3(d)	(30,988)
Finance costs	(11,348)	(54,112)	(7,914)	(5,525)	(1,198)	(1,705)	(70,454)	(86,980)	1,440	3(d)	(96,888)
Share of loss of a joint venture	(73)	–	–	–	–	–	–	–			(73)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	84,444	68,029	28,471	6,766	848	9,536	113,650	140,308			200,788
Income tax	(12,705)	(18,018)	(7,140)	(879)	(320)	(366)	(26,723)	(32,991)			(45,696)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	71,739	50,011	21,331	5,887	528	9,170	86,927	107,317			155,092
DISCONTINUED OPERATION											
Profit for the year from a discontinued operation	12,246	–	–	–	–	–	–	–			12,246
PROFIT FOR THE YEAR	83,985	50,011	21,331	5,887	528	9,170	86,927	107,317			167,338
Attributable to:											
Owners of the parent											
Continuing operations	71,498	42,418	21,331	5,887	528	9,170	79,334	97,943	159	3(d)	136,407
Discontinued operation	11,785	–	–	–	–	–	–	–			11,785
	83,283	42,418	21,331	5,887	528	9,170	79,334	97,943			148,192
Non-controlling interests	702	7,593	–	–	–	–	7,593	9,374	9,229	3(c)	19,146
	83,985	50,011	21,331	5,887	528	9,170	86,927	107,317			167,338

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the year ended 31 December 2015

		The Target Companies									
	The Group	The GSWM Group	Ha'erbin Shuangqi	Beikong Shuyang	Beikong Wenchang	Hunan Hengxing	Total	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*		*(note 2)*		*Notes*	
PROFIT FOR THE YEAR	83,985	50,011	21,331	5,887	528	9,170	86,927	107,317			167,338
OTHER COMPREHENSIVE LOSS											
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:											
Exchange differences on translation of foreign operations:											
– Translation of foreign operations	(66,226)	–	–	–	–	–	–	(2,266)	115	*3(d)*	(68,377)
– Release upon disposal of a subsidiary	(2,425)	–	–	–	–	–	–	–			(2,425)
OTHER COMPREHENSIVE LOSS FOR THE YEAR	(68,651)	–	–	–	–	–	–	(2,266)			(70,802)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,334	50,011	21,331	5,887	528	9,170	86,927	105,051			96,536
Attributable to:											
Owners of the parent	16,474	42,418	21,331	5,887	528	9,170	79,334	95,677			79,232
Non-controlling interests	(1,140)	7,593	–	–	–	–	7,593	9,374	9,229	*3(c)*	17,304
	15,334	50,011	21,331	5,887	528	9,170	86,927	105,051			96,536

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

For the year ended 31 December 2015

		The Target Companies									
	The Group	The GSWM Group	Ha'erbin Shuangqi	Beikong Shuyang	Beikong Wenchang	Hunan Hengxing	Total	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*		*(note 2)*		*Notes*	
CASH FLOWS FROM OPERATING ACTIVITIES											
Profit before tax:											
From continuing operations	84,444	68,029	28,471	6,766	848	9,536	113,650	140,307	(3,963)	*3(d)*	200,788
									(20,000)	*3(f)*	
From a discontinued operation	12,246	–	–	–	–	–	–	–			12,246
Adjustments for:											
Gain on disposal of a subsidiary	(10,937)	–	–	–	–	–	–	–			(10,937)
Share of profits and losses of joint ventures	(713)	–	–	–	–	–	–	–			(713)
Share of profits and losses of associates	(42)	–	–	–	–	–	–	–			(42)
Interest income	(12,942)	(835)	(590)	(187)	–	(33)	(1,645)	(2,031)	119	*3(d)*	(14,854)
Imputed interest on interest-free trade and bills receivables with extended credit periods	(1,892)	–	–	–	–	–	–	–			(1,892)
Finance costs	12,368	54,112	7,914	5,525	1,198	1,705	70,454	86,980	(1,440)	*3(d)*	97,908
Depreciation	15,961	23,798	231	122	92	281	24,524	30,277	(1,446)	*3(d)*	44,792
Amortisation of prepaid land lease payments	589	560	–	–	–	–	560	692			1,281
Amortisation of operating concessions	16,215	17,546	4,624	4,915	–	9,110	36,195	44,685			60,900
Amortisation of other intangible assets	4,908	–	2	–	–	–	2	2			4,910
Government grant	–	(1,413)	(1,430)	(200)	(1,500)	(3,838)	(8,381)	(10,347)			(10,347)
Provision for major overhauls	–	330	31	29	64	38	492	607			607
Fair value gain on investment properties, net	(9,158)	–	–	–	–	–	–	–			(9,158)
Impairment of an amount due from an associate	32	–	–	–	–	–	–	–			32
Impairment of trade and bills receivables, net	7,347	–	–	–	–	–	–	–			7,347
Impairment of other receivables, net	2,152	–	–	–	–	–	–	–			2,152
Write-off of trade and other payables	–	–	(1,566)	–	–	–	(1,566)	(1,933)			(1,933)
Loss on disposal of items of property, plant and equipment, net	175	40	–	–	–	1	41	51	(40)	*3(d)*	186
Gain on disposal of an item of other intangible assets	(1,625)	–	–	–	–	–	–	–			(1,625)
	119,128	162,167	37,687	16,970	702	16,800	234,326	289,291			381,648

		The Target Companies									
	The Group HK$'000 (note 1)	The GSWM Group RMB'000 (note 2)	Ha'erbin Shuangqi RMB'000 (note 2)	Beikong Shuyang RMB'000 (note 2)	Beikong Wenchang RMB'000 (note 2)	Hunan Hengxing RMB'000 (note 2)	Total RMB'000	Total HK$'000 (note 2)	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Decrease/(increase) in inventories	12,843	(444)	125	(125)	70	12	(362)	(447)			12,396
Increase in amounts due from contract customers	(449)	–	–	–	–	–	–	–			(449)
Decrease/(increase) in receivables under operating concession arrangement	(696,838)	15,170	(33,194)	(1,230)	2,290	–	(16,964)	(20,943)			(717,781)
Decrease/(increase) in trade and bills receivables	14,665	(2,919)	(533)	(10,698)	(1,206)	(1,894)	(17,250)	(21,296)	(2,962)	3(d)	(9,593)
Decrease/(increase) in prepayments, deposits and other receivables	135,232	(47,817)	(15,540)	8,384	(210)	(2,754)	(57,937)	(71,527)	(3,219)	3(d)	60,486
Decrease/(increase) in other taxes recoverable	–	–	510	(3,290)	–	–	(2,780)	(3,432)			(3,432)
Increase/(decrease) in trade and bills payables	640,583	(7,632)	(28,609)	(42,161)	(6)	3,042	(75,366)	(93,044)	(2,528)	3(d)	545,011
Decrease in amounts due to contract customers	(490)	–	–	–	–	–	–	–			(490)
Increase/(decrease) in other payables and accruals	49,849	15,937	(7,019)	100	136	766	9,920	12,247	(1,211)	3(d)	60,885
Increase/(decrease) in other taxes payables	–	1,688	(51)	–	202	446	2,285	2,821	10	3(d)	2,831
Cash generated from/(used in) operations	274,523	136,150	(46,624)	(32,050)	1,978	16,418	75,872	93,669			331,512
PRC corporate income tax paid	(4,259)	(3,957)	–	–	(232)	(641)	(4,830)	(5,963)			(10,222)
Net cash flows from/(used in) operating activities	270,264	132,193	(46,624)	(32,050)	1,746	15,777	71,042	87,706			321,290
CASH FLOWS FROM INVESTING ACTIVITIES											
Purchases of items of property, plant and equipment	(13,696)	(12,112)	(306)	(17)	(6)	(165)	(12,606)	(15,563)	1,354	3(d)	(27,905)
Proceeds from disposal of items of property, plant and equipment	118	–	10	–	–	–	10	12			130
Proceeds from disposal of an item of other intangible assets	1,875	–	–	–	–	–	–	–			1,875
Addition of operating concession	–	–	(51,984)	(1,802)	–	(7,233)	(61,019)	(75,332)			(75,332)
Government grant received	–	5,383	30	–	1,500	–	6,913	8,535			8,535
Loan to a fellow subsidiary	–	–	–	(3,500)	–	–	(3,500)	(4,321)	4,321	3(e)	–
Disposal of a subsidiary	6,704	–	–	–	–	–	–	–			6,704
Increase in an amount due from an associate	(32)	–	–	–	–	–	–	–			(32)
Increase in time deposits with maturity of more than three months when acquired	(43,544)	–	–	–	–	–	–	–			(43,544)
Decrease/(increase) in pledged deposits	74	(11,165)	(2,545)	–	68	–	(13,642)	(16,842)			(16,768)
Interest received	11,755	835	590	187	–	33	1,645	2,031	(119)	3(d)	13,667
Net cash flows used in investing activities	(36,746)	(17,059)	(54,205)	(5,132)	1,562	(7,365)	(82,199)	(101,480)			(132,670)

		The Target Companies									
	The Group *HK$'000* *(note 1)*	The GSWM Group *RMB'000* *(note 2)*	Ha'erbin Shuangqi *RMB'000* *(note 2)*	Beikong Shuyang *RMB'000* *(note 2)*	Beikong Wenchang *RMB'000* *(note 2)*	Hunan Hengxing *RMB'000* *(note 2)*	Total *RMB'000*	Total *HK$'000* *(note 2)*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES											
New bank loans	–	173,153	90,000	–	–	–	263,153	324,880			324,880
Repayment of bank loans	–	(252,153)	(400,000)	(72,397)	(5,000)	(5,100)	(734,650)	(906,975)			(906,975)
New loans from the immediate holding company	–	27,435	–	5,000	–	–	32,435	40,043			40,043
Repayment of loans advanced from the immediate holding company	–	–	(85,000)	(25,000)	–	(5,000)	(115,000)	(141,975)			(141,975)
New loan from a fellow subsidiary	–	–	480,000	151,720	3,500	–	635,220	784,222	(4,321)	3(e)	779,901
Proceeds from issue of shares upon exercise of share options	4,125	–	–	–	–	–	–	–			4,125
Capital element of finance lease rental payments	–	(15,800)	–	–	–	–	(15,800)	(19,506)	4,411	3(d)	(15,095)
Interest element of finance lease rental payments	–	(3,365)	–	–	–	–	(3,365)	(4,154)	884	3(d)	(3,270)
Interest paid	(8,299)	(51,341)	(24,168)	(5,219)	(884)	(1,699)	(83,311)	(102,853)			(111,152)
Capital contribution by a non-controlling interest	1,354	–	–	–	–	–	–	–			1,354
Net cash flows from/(used in) financing activities	(2,820)	(122,071)	60,832	54,104	(2,384)	(11,799)	(21,318)	(26,318)			(28,164)
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,698	(6,937)	(39,997)	16,922	924	(3,387)	(32,475)	(40,091)			160,456
Cash and cash equivalents at beginning of year	1,747,239	168,753	93,003	4,641	1,319	9,797	277,513	342,609	(45,730)	3(d)	2,044,118
Effect of foreign exchange rate changes, net	(33,513)	–	–	–	–	–	–	(7,291)	1,348	3(d)	(39,456)
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,944,424	161,816	53,006	21,563	2,243	6,410	245,038	295,227			2,165,118

	The Group	The Target Companies							Pro forma adjustments	Notes	Pro forma Enlarged Group
	The Group	The GSWM Group	Ha'erbin Shuangqi	Beikong Shuyang	Beikong Wenchang	Hunan Hengxing	Total	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*	*(note 2)*		*(note 2)*		*Notes*	
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS											
Cash and bank balances other than time deposits											
Placed in banks	831,051	123,660	14,835	5,132	2,272	6,410	152,309	183,505	(20,000)	*3(f)*	994,556
Placed in a financial institution	54	135	–	3,431	–	–	3,566	4,296			4,350
Time deposits											
Placed in banks	1,031,264	30,120	–	–	–	–	30,120	36,289			1,067,553
Placed in a financial institution	–	–	50,000	13,000	–	–	63,000	75,904			75,904
Less: Pledged deposits											
Placed in banks	–	(37,361)	–	–	(29)	–	(37,390)	(45,048)			(45,048)
Placed in a financial institution	–	–	(11,829)	–	–	–	(11,829)	(14,252)			(14,252)
Cash and cash equivalents as stated in the consolidated statement of financial position	1,862,369	116,554	53,006	21,563	2,243	6,410	199,776	240,694			2,083,063
Less: Time deposits with maturity of more than three months when acquired	(112,304)	–	–	–	–	–	–	–			(112,304)
Add: Cash and bank balances attributable to the disposal groups	194,359	45,262	–	–	–	–	45,262	54,533	(54,533)	*3(d)*	194,359
Cash and cash equivalents as stated in the consolidated statement of cash flows	1,944,424	161,816	53,006	21,563	2,243	6,410	245,038	295,227			2,165,118

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

1. The audited consolidated statement of financial position of the Group as at 31 December 2015 and the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated of cash flows for the year ended 31 December 2015 were extracted from the published annual report of the Company for the year ended 31 December 2015 dated 31 March 2016.

2. The audited consolidated statement of financial position of the GSWM Group were extracted from the accountants' report as set out in Appendix IIIA to this Circular and the audited statement of financial position of each of Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing were extracted from the accountants' reports as set out in Appendices IIIB, IIIC, IIID and IIIE, respectively, to this Circular, and were translated at Hong Kong dollars at the exchange rate of HK$100=RMB83.

   The audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the GSWM Group were extracted from the accountants' report as set out in Appendix IIIA to this Circular and the audited statement of profit or loss, the audited statement of comprehensive income and the audited statement of cash flows of each of Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing were extracted from the accountants' reports as set out in Appendices IIIB, IIIC, IIID and IIIE, respectively, to this Circular, and were translated at Hong Kong dollars at the exchange rate of HK$100=RMB81.

3. (a) Under Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), the Group will apply the purchase method to account for the acquisition of the GSWM Group, Ha'erbin Shuangqi, Beikong Shuyang, Beikong Wenchang and Hunan Hengxing (collectively, the "**Target Companies**") in the consolidated financial statements of the Group. This adjustment is expected to have a continuing effect on the Enlarged Group.

   The goodwill arising from the Acquisition is calculated as follows:

	Notes	*HK$'000*
Consideration for the Acquisition: New Bonds	*(i)*	2,202,300
Less: Fair value of the net assets attributable to the owners of the Target Companies acquired	*(ii), (iii)*	(1,155,672)
Goodwill arising from the Acquisition (the "**Goodwill**")	*(iv)*	1,046,628

Notes:

(i) In accordance with the Sale and Purchase Agreement (as defined in this Circular), the consideration for the Acquisition (as defined in this Circular) is RMB1,850,000,000 (equivalent to approximately HK$2,202,300,000), the consideration will be satisfied by the issuance of the New Bonds (as defined in this Circular) of the Company to the Vendor. Such New Bonds will be matured in five years from the date of issuance and can be converted at any time before the maturity date. The initial conversion price has been set at HK$1.13 per conversion share (subject to adjustments). Also, the Company has a right to early redeem the CBs at any time after two years from the date of issuance of the New Bonds.

For the purpose of preparation of unaudited pro forma statement of financial position, the principal amount of the New Bonds is divided into debt component and equity component according to Hong Kong Accounting Standard ("**HKAS**") 32 *Financial Instruments: Presentation* issued by the HKICPA, on initial recognition.

The directors of the Company have engaged an independent valuer, Crowe Horwath (HK) Consulting & Valuation Limited, to determine the fair value of the New Bonds to be recognised, in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 13 *Fair Value Measurement* issued by the HKICPA. The fair value of the liability component amounted to approximately HK$2,107,566,000, which is determined by binomial tree method. The residual amount of HK$94,734,000 was assigned to the equity component which will be credited to the equity of the Company.

(ii) The fair value of the net assets of the Target Companies acquired as at 31 December 2015 is calculated as follows:

	HK$'000
Net assets of Target Companies acquired	1,365,024
Add: Net liabilities of Anjie classified as a disposal group held for sale *(note 3(d))*	5,315
Less: Goodwill of the GSWM Group acquired	(28,454)
	1,341,885
Non-controlling interests of:	
The GSWM Group (excluding non-controlling interest of Anjie of HK$266,000)	(78,538)
20% of the net assets of Ha'erbin Shuangqi *(note 3(c))*	(71,684)
35% of the net assets of Hunan Hengxing *(note 3(c))*	(35,991)
	(186,213)
Fair value of the net assets of the Target Companies acquired	1,155,672

(iii) For the illustrative purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assumed that the fair values of the assets and liabilities of the Target Companies to be their respective carrying values at the date of the Completion. In the opinion of the Directors, the Target Companies' fair values of the assets and liabilities being acquired are subject to changes upon completion of the Acquisition because the fair values of the assets and liabilities being acquired shall be assessed on the date of the Completion. The possible changes to fair values of the assets and liabilities of the Target Companies being acquired were not reflected in the Unaudited Pro Forma Financial Information of the Enlarged Group, and accordingly, the goodwill so calculated, if any, may be materially different from that in the calculation above.

(iv) According to the Group's accounting policy, after initial recognition, the Goodwill will be measured at cost less any accumulated impairment losses. The Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the Goodwill is, from the acquisition date, allocated to one of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Further, according to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the Goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for the Goodwill will not be reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the Goodwill in accordance with HKAS 36 Impairment of Assets and the Group's accounting policy.

The Directors, based on the Target Companies' value-in-use calculation, conclude that there is no impairment of the Goodwill arising from the Acquisition. The value-in-use calculation of the Target Companies is determined using the cash flow projections based on financial forecast approved by the Directors covering the service concession periods and based on the assumption that sizes of the operations remain constant perpetually.

Based on the impairment test, the recoverable amount of the cash-generating unit in which the Target Companies was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information for the Enlarged Group. However, should there be any adverse changes to the business of the Target Companies, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the Goodwill in accordance with HKAS 36 and the Group's accounting policy.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the Goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

(b) This adjustment represents the elimination of paid-up capital of the Target Companies (i.e. excluding Anjie, as defined in note 3(d)) with an aggregate amount of RMB962,616,000 (equivalent to approximately HK$1,159,778,000) and pre-acquisition reserves of the Target Companies with an aggregate amount of RMB109,510,000 (equivalent to approximately HK$132,023,000). This adjustment is expected to have a continuing effect on the Enlarged Group.

(c) The non-controlling interests of the Target Companies as at 31 December 2015 are calculated as follows:

	HK$'000
20% of the net assets of Ha'erbin Shuangqi	71,684
35% of the net assets of Hunan Hengxing	35,991
Non-controlling interests of the Target Companies acquired	107,675

The profits for the year of Ha'erbin Shuangqi and Hunan Hengxing attributable to the non-controlling interests during the year ended 31 December 2015 are calculated as follows:

	HK$'000
20% of the profit for the year of Ha'erbin Shuangqi	5,267
35% of the profit for the year of Hunan Hengxing	3,962
Profit for the year attributable to the non-controling interests	9,229

(d) Subsequent to the reporting period, on 31 March 2016 and 17 May 2016, GSWM has entered into a memorandum of trust and an amended and restated memorandum of trust with BEHL (as defined in this Circular), pursuant to which GSWM agrees to hold the equity interest in 北京金州安潔廢物處理有限公司 ("**Anjie**") on behalf of BEHL effective from 1 January 2016. This adjustment represents the deduction of the financial position, financial performance and cash flows of Anjie, which is classified as a disposal group held for sale, from the GSWM Group's Financial Information. This adjustment is expected to have a continuing effect on the Enlarged Group.

	HK$'000
Assets of Anjie classified as held for sale	58,839
Liabilities directly associated with assets classified as held for sale	(42,917)
Net assets of Anjie classified as held for sale	15,922
Less: Amount due to GSWM	(21,237)
Net liabilities of Anjie (excluding inter-group balance)	(5,315)
Attributable to:	
GSWM	(5,581)
Non-controlling interest	266
	(5,315)

(e) This adjustment is to reflect the elimination of inter-group balances thereon upon completion of the Acquisition. The adjustment is expected to have a continuing effect on the Enlarged Group.

(f) The direct expenses of audit, legal and other professional services related to the Acquisition and for the purpose of the preparation of this Circular are estimated to be HK$20,000,000. The adjustment is not expected to have a continuing effect on the Enlarged Group.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Section A of Appendix V to this Circular.

EY安永

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24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Beijing Development (Hong Kong) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2015, the pro forma consolidated statement of profit or loss, the pro forma consolidated statement of comprehensive income and the pro forma consolidated statement of cash flows for the year ended 31 December 2015, and related notes as set out on pages V-1 to V-15 of the Circular dated 24 June 2016 (the "**Circular**") issued by the Company (the "**Pro Forma Financial Information**") in connection with the proposed acquisition (the "**Proposed Acquisition**") of the entire equity interest of the Golden State Waste Management Corporation ("**GSWM**") and its subsidiaries, 80% equity interest of 哈爾濱市雙琦環保資源利用有限公司 (Ha'erbin Shuangqi Renewable Resources Co. Ltd.*), entire equity interest of 北控環境再生能源沭陽有限公司 (Beikong Environment Renewable Energy Shuyang Co. Ltd.*), entire equity interest in 北控環境(文昌)再生能源有限公司 (Beikong Environment (Wenchang) Renewable Energy Co., Ltd*) and 65% equity interest in 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environment Science and Technology Development Co., Ltd*) (hereafter collectively referred to as the "**Target Companies**") by the

Group. The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in pages V-1 to V-15 in the section headed "**Introduction**" in Section A of Appendix V to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 31 December 2015 as if the transaction had taken place on 31 December 2015. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Company's published annual report for the year ended 31 December 2015 dated 31 March 2016. Information about the Target Companies' financial position, financial performance and cash flows as at 31 December 2015 has been extracted by the Directors from the financial information of each of the Target Companies for the year ended 31 December 2015 (on which accountants' reports have been published in Appendices IIIA, IIIB, IIIC, IIID and IIIE to the Circular).

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this Circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

1. BUSINESS VALUATION REPORT OF HA'ERBIN SHUANGQI PROJECT, BEIKONG SHUYANG PROJECT AND HUNAN HENGXING PROJECT

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from Crowe Horwath (HK) Consulting & Valuation Limited, an independent valuer, in connection with the business valuation of Ha'erbin Shungqi Project, Beikong Shuyang Project and Hunan Hengxing Project as at 31 December 2015.

Crowe Horwath™

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Date: 24 June 2016

Board of the Directors
Beijing Development (Hong Kong) Limited
66th Floor, Central Plaza,
18 Harbour Road,
Wan Chai, Hong Kong

Dear Sirs,

RE: Equity Interest Valuation of Three Waste Treatment Companies (the "Subject Companies")

In accordance with an instruction from Beijing Development (Hong Kong) Limited (the "**Company**" or the "**Instructing Party**"), we hereby provide a valuation on the fair value basis of the equity interests (the "**Equity Interests**") of three waste treatment companies as at 31 December 2015 (the "**Valuation Date**"). The Subject Companies include:

- 100% equity interest of 北控環境再生能源沭陽有限公司 (Beikong Environment Renewable Energy Shuyang Co., Ltd. or the "**Beikong Shuyang**");
- 100% equity interest of 哈爾濱市雙琦環保資源利用有限公司 (Ha'erbin Shuangqi Renewable Resources Co., Ltd. or the "**Ha'erbin Shuangqi**"); and
- 100% equity interest of 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environment Science and Technology Development Co., Ltd. or the "**Hunan Hengxing**").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair value of the Subject Companies. This valuation is complied with The HKIS Valuation Standards published by The Hong Kong Institute of Surveyors, the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the fair value of the Equity Interests of the Subject Companies for the Instructing Party's circular reference purpose only in relation to the very substantial acquisition transaction as announced by the Instructing Party on 31 March 2016.

Pursuant to Rule 14A.70(9) of the Listing Rules, a circular in relation to a connected transaction that involves an acquisition or disposal of a company or business engaging in an infrastructure project must contain, among others, a business valuation report on that company or business and/or traffic study report on the project.

Listing Decision HKEx-LD74-3 issued by the Stock Exchange clarified that Rule 14A.70(9) of the Listing Rules is not intended to apply to an acquisition of a completed infrastructure project, or a company holding the completed project, with a reasonable trading record (which is ordinarily expected to cover at least three years). This is because an accountants' report on the business or company will be available for shareholders to properly assess its operations and financial position.

Given that (i) the other three target projects, namely the Gaoantun WTE Project, the Zhangjiagang WTE Project and the Beikong Wenchang Project, are completed infrastructure projects in full operations with a trading record of three years and (ii) accountants' reports of their holding companies, namely Golden State Waste Management Corporation ("GSWM") and Beikong Environment (Wenchang) Renewable Energy Co., Ltd. ("Beikong Wenchang") (as set out in Appendices IIIA and IIID to the circular of the Company on 24 June 2016) are available for shareholders to properly assess their operations and financial position, equity interests GSWM and Beikong Wenchang are not included in this report for the purpose of the valuation.

1 BACKGROUND OF THE SUBJECT COMPANIES

Background of Beikong Shuyang

Beikong Shuyang was established under the laws of the PRC on 11 April 2012. The principal activity of Beikong Shuyang is the investment in, and operation of, 江蘇省沭陽縣垃圾焚燒發電廠項目 (Jiangsu Shuyang Waste-To-Energy Plant Project) (the "**Beikong Shuyang Project**") in Shuyang County, Jiangsu Province of the PRC.

The Beikong Shuyang Project is a household waste incineration project operated on a Build-Operate-Transfer ("**BOT**") basis for a licensed period of 30 years commencing from March 2015 and ending in March 2045. It uses grate furnace technology. The Beikong Shuyang Project has commenced trial operations in January 2015 and formal operation has been started since April 2015.

Background of Ha'erbin Shuangqi

Ha'erbin Shuangqi was established under the laws of the PRC on 9 July 2004. The principal activity of Ha'erbin Shuangqi is the investment in, and operation of, 哈爾濱雙琦垃圾焚燒發電BOT項目 (the "**Ha'erbin Shuangqi Project**") in Ha'erbin, Heilongjiang Province of the PRC.

The Ha'erbin Shuangqi Project is a household waste incineration project operated on a BOT basis for a licensed period of 30 years commencing from April 2013 and ending in April 2043. It has household waste treatment capacity of 1,600 tonnes/day comprising 400 tonnes/day for phase I and 1,200 tonnes/day for phase II. Of which, the phase I project uses fluidised bed technology and has commenced operations in May 2014, while the phase II project uses grate furnace technology and is under construction, which is expected to commence trial operations in 2016.

Background of Hunan Hengxing

Hunan Hengxing was established under the laws of the PRC on 23 February 2006 and is owned as to 65% by Beijing Enterprise Holdings Limited as at the Latest Practicable Date. The principal activity of Hunan Hengxing is the investment in, and operation of, 湖南省衡陽危險廢物處置中心項目 (Hunan Hengxing Hazardous Waste Treatment Project) (the "**Hunan Hengxing Project**") located in Hunan Province of the PRC.

The Hunan Hengxing Project is a hazardous waste and medical waste treatment project operated on a BOT basis for a licensed period of 25 years commencing from the date of completion of final acceptance of the construction of the plant. The project has hazardous waste and medical waste treatment capacity of 35,000 tonnes/year, including waste containing copper of 6,000 tonnes/year, acidic-alkali waste and emulsifying liquid waste of 6,000 tonnes/year, and heavy metal sludge of 18,000 tonnes/year. The Hunan Hengxing Project has commenced trial operations in May 2013.

2 VALUATION METHODOLOGY

There are three generally accepted valuation approaches in valuation of the Equity Interests:

2.1 Asset Approach (or Cost Approach)

Asset approach (or known as cost approach) is an asset-based rather than a market-oriented method. It requires valuing a business on an individual basis to add up to the total valuations of business.

Under this approach, the expenses or costs on replacing or re-acquiring individual items or parts are estimated by valuers on an itemised basis, thus arriving at the valuation of target business.

2.2 Market Approach

Market approach is the most straightforward valuation method in determining market value of an asset or a business. Under this approach, valuers seek to identify the transaction cases having been executed and qualified as a reference for value comparison. However, it is normally difficult to apply the approach to unique business, as there is a lack of sufficient comparable transactions for reference.

2.3 Income Approach

Income approach is an income-oriented valuation method assuming that investors may invest in alternative business with similar characteristics but not necessarily identical with the subject business.

Under the income approach, business value equals to the present value of the future expected income or economic benefit brought by the business, which involves the principle of capitalisation. Generally, capitalisation is a process through which the expected benefit is discounted based on a required rate of return.

2.4 Selection of Assessment Methodology

For the Equity Interests, we considered that market approach not applicable for the valuation, as there are insufficient comparable transactions in the market. We also considered that cost approach not an adequate approach for the valuation, as this approach does not take future growth potential into consideration. Thus, we determined that income approach was the most appropriate valuation approach to value the Equity Interests. Discounted cash-flow method of income approach was used in this case.

Discounted Cash-flow Method (the "DCF Method")

The discounted cash-flow method is premised on the concept that the value is based on the present value of all future benefits that flow to the shareholder by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the asset, or a combination of both. In essence, this valuation method requires a forecast to be made of cash-flow, going out far enough into the future until an assumed stabilization occurs for the assets being appraised. This methodology assumes that the forecasted income/cash-flow will not necessarily be stable in the near term but will stabilize in the future.

3 DISCUSSION OF FINANCIAL FORECAST – BEIKONG SHUYANG

Forecast Period

The original expiry date of the BOT contract as stated in the original agreement was in March 2045. The construction for the plant was completed in early 2015, and the first full year of operation is in 2016. In this valuation, the effective operation term of the BOT contract equates to a Forecast Period from January 2016 to March 2045.

Financial Forecasts adjusted for Inflation

The forecasts provided by the management were not adjusted for inflation. Hence, we have adjusted the revenue and cost forecasts with a 2.0% annual inflation rate in general.

Production Capacity

Beikong Shuyang is now under fully operating condition. The treatment volume was about 185,720 tonnes in the 9 months formal operation period in 2015. As advised by the management, the expected treatment volume is 247,500 tonnes per year from 2016 onwards.

Revenues

Total revenue of Beikong Shuyang consists of the sales of electricity to the province's power company and the fees received from treating household waste.

Electricity Generation: According to the "Circular on Improving the Pricing Policy for Waste Incineration-power Generation" promulgated by the National Development and Reform Commission ("**NDRC**") in March 2012, which stipulates a unified on-grid tariff for waste-generated electricity, the operators will receive inflation adjusted RMB 0.65 per kWh of electricity provided to the power grid, up until 280 kWh per tonne of waste treated. Any excess electricity generated in excess of 280 kWh per tonne will earn the rate received by conventional coal-fired power plants. The amount of electricity generated per year is expected to increase by approximately 0% – 2% per annum in the long run, due to an improvement in the heating value of waste by more effective pre-treatment procedures of waste.

Growth of Heating Value: As advised by the management, the efficiency of heat generation through waste incineration is expected to gradually increase 2% throughout the Forecast Period, as the heating value of waste improves. This improvement is caused by a better assortment of waste, additional pre-treatment procedures and the fine-tuning of treatment processes.

Waste Treatment: The other source of revenue of Beikong Shuyang is from subsidies by the local government for the treatment of household waste. As of the Valuation Date, Beikong Shuyang has received RMB 58.8 per tonne of waste treated.

Once the plant reaches maximum capacity in 2016, the plant will treat 247,500 tonnes of waste per year for the life of the BOT contract.

Costs

As advised by the management, the costs related to the business include raw material fees, coal and operational expenses, treatment fees for leachate, slag and gas, repair and maintenance fees, wages and other administrative expenses.

Income Tax

As advised by the management and in accordance with the relevant tax laws in the PRC, Beikong Shuyang is subject to standard corporate taxes of 25% per annum.

Capital Expenditure

Based on our discussion with the management, capital expenditure of the maintenance of operational equipment is estimated to be 3% of its book value per annum throughout the Forecast Period.

4 DISCUSSION OF FINANCIAL FORECAST – HA'ERBIN SHUANGQI

Forecast Period

The construction for the phase I was completed in 2014, and the construction for the phase II is expected to be completed in 2016. In this valuation, the effective operation term of the BOT contract equates to a Forecast Period from January 2016 to April 2043.

Financial Forecasts adjusted for Inflation

The forecasts provided by the management were not adjusted for inflation. Hence, we have adjusted the revenue and cost forecasts with a 2.0% annual inflation rate in general.

Production Capacity

As advised by the management, the phase II of Ha'erbin Shuangqi will be put into use starting April 2016, the 3 months vacant period equates to around 10% discount in treatment capacity for 2016. Starting from 2017, the plant is expected to operate under full capacity.

Revenues

Total revenue of Ha'erbin Shuangqi consists of the sales of electricity to the province's power company and the fees received from treating household waste.

Electricity Generation: According to the "Circular on Improving the Pricing Policy for Waste Incineration-power Generation" promulgated by the National Development and Reform Commission ("**NDRC**") in March 2012, which stipulates a unified on-grid tariff for waste-generated electricity, the operators will receive inflation adjusted RMB 0.65 per kWh of electricity provided to the power grid, up until 280 kWh per tonne of waste treated. Any excess electricity generated in excess of 280 kWh per tonne will earn the rate received by conventional coal-fired power plants. The amount of electricity generated per year is expected to increase by approximately 0% – 2% per annum in the long run, due to an improvement in the heating value of waste by more effective pre-treatment procedures of waste.

Growth of Heating Value: As advised by the management, the efficiency of heat generation through waste incineration is expected to gradually increase 2% throughout the Forecast Period, as the heating value of waste improves. This improvement is caused by a better assortment of waste, additional pre-treatment procedures and the fine-tuning of treatment processes.

Waste Treatment: The other source of revenue of Ha'erbin Shuangqi is from subsidies by the local government for the treatment of household waste. As of the Valuation Date, the Ha'erbin Shuangqi has received RMB 73 per tonne of waste treated.

Once the plant reaches maximum capacity in 2017, the plant will treat 561,000 tonnes of waste per year for the life of the BOT contract.

Costs

As advised by the management, the costs related to the business include raw material fees, coal and operational expenses, treatment fees for leachate, slag and gas, repair and maintenance fees, wages and other administrative expenses.

Income Tax

As advised by the management and in accordance with the relevant tax laws in the PRC, Ha'erbin Shuangqi is subject to standard corporate taxes of 25% per annum.

Capital Expenditure

Based on our discussion with the management, capital expenditure of the maintenance of operational equipment is estimated to be 3% of its book value per annum throughout the Forecast Period.

5 DISCUSSION OF FINANCIAL FORECAST – HUNAN HENGXING

Forecast Period

The construction for the plant was completed in early 2013, and the first full year of operations was in 2014. In this valuation, the effective operation term of the BOT contract equates to a Forecast Period from January 2016 to September 2037.

Financial Forecasts adjusted for Inflation

The forecasts provided by the management were not adjusted for inflation. Hence, we have adjusted the revenue and cost forecasts with a 2.0% annual inflation rate in general.

Production Capacity

As advised by the management, Hunan Hengxing's treatment volume will gradually increase and reach fully operating condition from 2019 onwards.

Revenues

Total revenue of Hunan Hengxing consists of fees collected from several different treatment methods, including:

- Comprehensive recycling treatment;
- Incineration treatment;
- Physical/chemical treatment; and
- Secure landfill treatment.

Costs

As advised by the management, the costs related to the business includes raw material fees, chemical fees, coal, diesel and operational expenses, treatment fees for leachate, slag and gas, repair and maintenance fees, wages and other administrative expenses.

Income Tax

As advised by the management and in accordance with the relevant tax laws in the PRC, Hunan Hengxing is subject to standard corporate taxes of 25% per annum.

Capital Expenditure

Based on our discussion with the management, capital expenditure of the maintenance of operational equipment is estimated to be 3% of its book value per annum throughout the Forecast Period.

6 DISCOUNT RATE AND OTHER ADJUSTMENTS

We adopted the weight average cost of capital ("**WACC**") as the benchmark discount rate in valuing the Equity Interests of the Subject Companies. WACC comprises two components: cost of equity and cost of debt. Cost of equity was developed using Capital Asset Pricing Model (the "**CAPM**"). The CAPM states that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for other risks. Cost of debt was developed with reference to the long term prime lending rate.

Our determined WACC for the Subject Companies is 10.4%.

We have selected a group of comparable companies listed on stock exchanges to provide a reasonable reference in order to evaluate the industry's beta and capital structure used. Our selection criteria are that the comparable companies should:

- Primarily be engaged in waste treatment, power generation, waste water treatment, or related renewable energy concession projects;
- Have their primary operations in a environment similar to the Subject Companies; and
- Information on the peer firms must be extracted from a reliable source.

Comparable Companies

Ticker	Company Name	Business Introduction
000027 CH Equity	Shenzhen Energy Group Co., Ltd.	Shenzhen Energy Group generates and distributes electricity and gas. The company supplies power to cities in the PRC, including Shenzhen, Huizhou and Dongguan, Guangdong Province.

Ticker	Company Name	Business Introduction
257 HK Equity	China Everbright International Limited	China Everbright International provides environmental protection project management and consultancy services. The company's operations are broken up into environmental energy, environmental water, environmental construction and environmental technology.
CNGI SP Equity	C&G Environmental Protection Holdings Limited	C&G Environmental Protection develops and operates waste to energy plants in the PRC. The company specialises in environmental preservation projects like Municipal Solid Waste (MSW) and sewage treatment.
CVA US Equity	Covanta Holding Corporation	Covanta Holding conducts operations in waste disposal, energy services and specialty insurance. The company also owns and operates waste-to-energy and power generation projects. Its waste-to-energy facilities convert municipal solid waste into renewable energy for communities.

Calculation of the Weighted Average Cost of Capital (WACC)

Parameters	**Input as at 31 December 2015**	**Formula**	*Note*
Weight of Equity	59.3%	A	*(1)*
Weight of Debt	40.7%	B = 1 – A	*(1)*
Unlevered Beta	0.65	C	*(2)*
Levered Beta	0.99	D = C × (1 + (1 – L) × B/A)	*(3)*
Equity Risk Premium	7.50%	E	*(4)*
Risk Free Rate	2.86%	F	*(5)*
Size Premium	3.74%	G	*(6)*
Firm Specific Premium	1.0%	H	*(7)*
Cost of Equity	15.0%	J = F + (D × E) + G + H	
Cost of Debt	4.90%	K	*(8)*
Tax Rate	25.0%	L	*(9)*
After-Tax Cost of Debt	3.68%	M = K × (1 – L)	
WACC	10.40%	N = (A × J) + (B × M)	

Notes:

(1) Derived based on the debt-to-equity ratio of a set of the comparable companies. Source: Bloomberg;

(2) Derived based on the unlevered beta of a set of the comparable companies. Source: Bloomberg;

(3) Relevered beta with the Subject Companies' target capital structure derived from the comparable companies;

(4) Database of global equity risk premiums. Source: Aswath Damodaran's risk premium database;

(5) Derived with reference to the yield of 10-year Chinese sovereign bonds. Source: Bloomberg;

(6) Source: Dulf & Phelp 2015 Valuation Yearbook;

(7) An additional 1.00% risk premium to reflect the Subject Companies' sole dependency on the waste treatment business as well as its relatively early stage of operations;

(8) The prevailing 5-year prime lending rate in the PRC. Source: Bloomberg; and

(9) The corporate income tax rate of the PRC.

Lack of Marketability Discount

We have adopted a lack of marketability discount of 14.4% in the valuation of the Equity Interests to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets. The marketability discounted is made reference to the "Restricted Stock Study" research paper as published by Trugman Valuation Associates, Inc.

7 SENSITIVITY ANALYSIS

The following tables indicate the instantaneous changes in the values of the Equity Interests of the Subject Companies that would arise if the key inputs for valuation as of the Valuation Date had changed, assuming all other risk variables remained constant.

Beikong Shuyang

In RMB'000				**WACC**		
		9.40%	9.90%	10.40%	10.90%	11.40%
	1.0%	150,251	137,377	125,470	114,442	104,212
	1.5%	161,812	148,192	135,599	123,937	113,124
Heating Value Growth	2.0%	169,551	155,547	142,593	130,593	119,461
	2.5%	175,006	160,782	147,618	135,418	124,096
	3.0%	179,029	164,667	151,370	139,044	127,600

Ha'erbin Shuangqi

In RMB'000				**WACC**		
		9.40%	9.90%	10.40%	10.90%	11.40%
	1.0%	246,612	218,275	191,980	167,549	144,819
	1.5%	267,113	237,463	209,958	184,410	160,649
Heating Value Growth	2.0%	280,982	250,643	222,491	196,335	172,002
	2.5%	290,763	260,027	231,498	204,984	180,310
	3.0%	297,979	266,995	238,228	211,486	186,594

Hunan Hengxing

In RMB'000		WACC				
		9.40%	9.90%	10.40%	10.90%	11.40%
	1.0%	227,730	217,509	207,995	199,127	190,850
	1.5%	234,807	224,126	214,190	204,936	196,305
Long-term Inflation	2.0%	242,425	231,238	220,841	211,164	202,145
	2.5%	250,631	238,891	227,988	217,849	208,406
	3.0%	259,480	247,133	235,676	225,030	215,124

8 PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on fair value basis and fair value is defined as "**the estimated price for the transfer of an asset or liability between knowledgeable and willing parties that reflects the respective interests of those parties**" by IVS. We opine the market values of the Subject Companies are consistent with their fair values.

8.1 Source of Information

Our investigation covers discussions with the Subject Companies' and the Instructing Party's representatives as well as collection of information.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Subject Companies were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us. We have also sought confirmation from the Subject Companies at no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

8.2 Factors Considered

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of household waste and electricity in the region;
- The price of raw materials and auxiliary fuel;
- Operation and financial risks of the Subject Companies;

- Environmental policies set by the government that pertains to the Subject Companies;
- Average operational parameters of comparable waste treatment plants in the PRC;
- Operation experience of the management of the Subject Companies;
- The economic conditions of Jiangsu, Heilongjiang and Hunan Provinces; and
- BOT operation periods.

8.3 Site Inspection and Management Interview

We conducted site visits to the waste-to-energy plants in April and May 2016 and had management interviews with the Subject Companies. The site visits were carried out by Mr. Ross Wang and Mr. Kenson Yeung. Through the interviews, we obtained further understanding of the Subject Companies including the establishment background, operations, management systems and future prospects. We have reviewed the financial forecast provided by the management of the Instructing Party based on the information obtained through the interviews.

9 VALUATION ASSUMPTIONS

Due to the changing environment in which the Subject Companies is operating and their early stage of businesses, a number of operating assumptions have been prepared by the management of the Subject Companies in order to sufficiently support our concluded opinion of the fair values. The assumptions are listed as follows:

- The Subject Companies will continue to manage and operate their waste treatment and power generation business in the PRC and fulfill all legal and regulatory requirements for the continuation of their business;
- There will be no material changes in politics, laws, rules or regulations where the Subject Companies currently operate which may materially and adversely affect the operations of the waste treatment business;

- There will be no major changes in the current taxation law where the Subject Companies currently operate which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in the PRC will be complied with;

- There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operations of the Subject Companies;

- Any financial statements, service contracts, schedule of assets and their conditions or other relevant information as provided by the Subject Companies and the Instructing Party in connection with the valuation is true, lawful, complete and credible; and

- The supply of household waste and quality, as determined by the heating value, to the Subject Companies is stable and can ensure its need for waste incineration and power generation.

10 DISCLAIMER AND LIMITATION

Our valuation is subject to General Services Conditions are attached at the rear of this business valuation report as Appendix. Our findings or conclusion of values of the subjects in this report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding ten (10) times of the amount of our agreed fee(s) for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners'/buyers' sole responsibility, as well as the structure to be utilised and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject businesses might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

11 CONCLUSION

The conclusion of values is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or Crowe Horwath.

Based on the valuation methodology adopted, we are of the opinion that as at 31 December 2015, the fair values of:

- **100% Equity Interest** of Beikong Environment Renewable Energy Shuyang Co., Ltd. was in the sum of **RMB142,593,000** (RENMINBI ONE HUNDRED FORTY TWO MILLION FIVE HUNDRED NINETY THREE THOUSAND).

- **100% Equity Interest** of Ha'erbin Shuangqi Renewable Resources Co., Ltd. was in the sum of **RMB222,491,000** (RENMINBI TWO HUNDRED TWENTY TWO MILLION FOUR HUNDRED NINETY ONE THOUSAND).

- **100% Equity Interest** of Hunan Hengxing Environment Science and Technology Development Co., Ltd. was in the sum of **RMB220,841,000** (RENMINBI TWO HUNDRED TWENTY MILLION AND EIGHT HUNDRED FORTY ONE THOUSAND).

We hereby certify that we have neither present nor prospective interests in the Subject Companies or the values reported.

Yours faithfully,
For and on behalf of
Crowe Horwath (HK) Consulting & Valuation Limited
Alex PW Leung *MHKIS MRICS*
Director

Mr. Alex PW Leung is a Member of The Hong Kong Institute of Surveyors (MHKIS) and a Member of Royal Institution of Chartered Surveyors (MRICS). He possesses over 20-year experience in the valuation industry including over 12-year experience in business and financial instruments valuation in the Greater China region.

Appendix – General Services Terms and Conditions

1. Reliance	Unless otherwise documented in a separate reliance letter, this valuation is strictly and only for the use of the Reliant Party(ies) and for the Purpose specifically stated. No reliance may be made by any third party without our prior written consent. No one should rely on our report as a substitute for their own due diligence.
2. Integrity of the Whole Report	This report and valuation, including this appendix, shall be used only in its entirety and no part shall be used without making reference to the whole report. The valuation may not be used in conjunction with any other valuation or study.
3. Verification	We recommend that before any financial transaction is entered into based upon this valuation, you obtain verification of the information contained within our report and the validity of the assumptions you have adopted. We would advise you that whilst we have valued the Subject(s) reflecting current market conditions, there are certain risks, which may be or may become uninsurable. Before undertaking any financial transaction based upon this valuation, you should satisfy yourselves as to the current insurance cover and the risks that may be involved should an uninsured loss occur.
4. Confidentiality	The contents of this valuation and report are confidential to the party to whom they are addressed for the specific purpose to which they refer and are for their use only. No responsibility will be accepted or assumed to any third party who may use or rely on the whole or any part of our valuation.
5. Publication	Neither the whole nor any part of this valuation may be published in any document, statement, circular or otherwise by any party other than Crowe Horwath, nor in any communication with any third party, without the prior written approval from Crowe Horwath, and subject to any conditions determined by Crowe Horwath, including the form and context in which it is to appear.

6. Status of Valuer

We certify that the valuer(s) who handled this valuation is competent and authorised to practise as an External Valuer. The valuer does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the property and is in a position to provide an objective and unbiased valuation. Our compensation is not contingent in any way upon our conclusions of value.

7. Challenge from Court

We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person. In all matters that may be potentially challenged by a Court or others, we do not take any responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defence of our recommendations against such challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defence of our professional positions taken, at our then current rates, plus direct actual expenses and according to our then standard professional agreement.

8. Extent of Our Investigations

We are not engaged to carry out all possible investigations in relation to the Subject(s). We assume, without independent verification, the accuracy, of all data provided to us from the Instructing Party(ies) and its agents/ representative. Where in our report we identify certain limitations to our investigations, this is to enable the Instructing Party(ies)/Reliant Party(ies) to instruct further investigations where considered appropriate or where we recommend as necessary prior to reliance. Crowe Horwath is not liable for any loss occasioned by a decision not to conduct further investigations.

9. Information from other Sources

The valuation contains information which is derived from other sources. Unless otherwise specifically instructed by you and/or stated in the valuation, we have not independently verified that information, nor adopted it as our own, or accepted its reliability. The Reliant Party(ies) accepts the risk that if any of the unverified information/ advice provided by others and referred to in the valuation is incorrect, then this may have an effect on the valuation.

10. Projections

To the extent that the valuation includes any statement as to any projections/future matter(s), that statement is provided as an estimate and/or opinion based on the information known to Crowe Horwath. Crowe Horwath does not warrant that such statements are accurate or correct.

11. Local Legislations

No effort has been made to determine the possible effect, if any, on the Subject(s) because of future country, provincial or local legislations/regulations, including any environmental or ecological matters or interpretations thereof.

12. Other Expertise

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by appraisers.

13. Valuation Opinion

Crowe Horwath employs recognised valuation methodology(ies) in estimating the value of the Subject(s). The result is the best estimate of value Crowe Horwath can produce, but it is an estimate and not a guarantee, and it is fully dependent upon the accuracy of the assumptions as to income, expenses, and market conditions. We have not independently verified market evidence/information nor can we comment on or accept its reliability. The Reliant Party(ies) accepts the risk that if any of the evidence/ information/advice provided by others and referred to in our valuation is incorrect, then this may have an effect on the valuation.

14. Future Change in Value	This valuation and report reflect facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions. We have no responsibility or obligation to update this report for events or circumstances occurring subsequent to the Valuation Date.
15. Regular Review Recommended	No warranty can be given as to the maintenance of this value into the future. Therefore, valuation of the Subject(s) should be reviewed periodically.
16. Reliance Window	Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability, nor should the valuation be relied upon, after the expiration of 3 months from the date of valuation, or such earlier date if the Reliant Party(ies) becomes aware of any factors that may have an effect on the valuation and has not disclosed such information to Crowe Horwath.
17. Other Matters may affect Value	If the Instructing Party(ies)/Reliant Party(ies) becomes aware of any matters which affect or may affect the valuation, then Crowe Horwath must be advised of those matters, and reliance must not be placed on the valuation under any circumstance.
18. Retention of Documents	All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least six years.

2. LETTERS

(A) LETTER ON THE ARITHMETICAL ACCURACY FROM ERNST & YOUNG

As the business valuation report set out in Appendix VI of this circular is based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the discounted cash flows forecast underlying the valuation on the business value of Ha'erbin Shuangqi Project, Beikong Shuyang Project and Hunan Hengxing Project for the purpose of inclusion in this circular.

24 June 2016

The Board of Directors
Beijing Development (Hong Kong) Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

Report from reporting accountants on the discounted cash flow forecasts in connection with the valuations of 北控環境再生能源沭陽有限公司, 哈爾濱市雙琦環保資源利用有限公司 and 湖南衡興環保科技開發有限公司

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecasts (the "**Forecasts**") on which the valuations dated 24 June 2016 prepared by Crowe Horwath (HK) Consulting & Valuation Limited in respect of (i) 100% equity interest in 北控環境再生能源沭陽有限公司 (the "**Beikong Shuyang**"); (ii) 100% equity interest in 哈爾濱市雙琦環保資源利用有限公司 (the "**Ha'erbin Shuangqi**"); and (iii) 100% equity interest in 湖南衡興環保科技開發有限公司 (the "**Hunan Hengxing**") (collectively, the "**Target Companies**") as at 31 December 2015 is based. The valuations are set out in the circular of Beijing Development (Hong Kong) Limited (the "**Company**") dated 24 June 2016 (the "**Circular**") in connection with the acquisition of the Target Companies. The valuations based on the Forecasts are regarded by The Stock Exchange of Hong Kong Limited as profit forecasts under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecasts. The Forecasts have been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out on pages VI-1 to VI-22 in the section headed "**Business Valuation Report of the Ha'erbin Shuangqi Project, Beikong Shuyang project and Hunan Hengxing Project**" of the Circular.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecasts based on our work. The Forecasts does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecasts in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecasts prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

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

Opinion

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

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(B) LETTER FROM CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

As the business valuation report set out on pages VI-1 to VI-22 of this circular is based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Company, on such valuation for the purpose of incorporation in this circular.

CICC
中金香港证券

China International Capital Corporation Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

The Board of Directors
Beijing Development (Hong Kong) Limited
66th Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

24 June 2016

Dear Sirs,

We refer to the business valuation report dated 24 June 2016 (the "**Business Valuation Report**") in respect of the valuation of (1) 100% equity interest of Ha'erbin Shuangqi Renewable Resources Co., Ltd.*(哈爾濱雙琦環保資源利用有限公司, "**Ha'erbin Shuangqi**"), (2) 100% equity interest of Beikong Environment Renewable Energy Shuyang Co., Ltd.*(北控環境再生能源沭陽有限公司, "**Beikong Shuyang**"), and (3) 100% equity interest of Hunan Hengxing Environment Science and Technology Development Co., Ltd.*(湖南衡興環保科技開發有限公司, "**Hunan Hengxing**", and together with Ha'erbin Shuangqi and Beikong Shuyang, the "**Targets**") prepared by Crowe Horwath (HK) Consulting & Valuation Limited ("**Crowe Horwath**") as set out on pages VI-1 to VI-22 to the circular of Beijing Development (Hong Kong) Limited (the "**Company**") dated 24 June 2016 (the "**Circular**"). Capitalised terms used herein, unless otherwise defined, shall have the same meanings as defined in the Circular.

We understand that the Business Valuation Report has been provided to you in connection with the Company's proposed acquisition of 80% equity interest in Ha'erbin Shuangqi, 100% equity interest in Beikong Shuyang and 65% equity interest in Hunan Hengxing.

We note that the Business Valuation Report has been prepared based on, among other things, the income approach, an appraisal approach to identify the value of the target of evaluation by discounted cash flows, and is therefore regarded as profit forecast under Rule 14.61 of the Listing Rules (the "**Forecast**").

We are not reporting on the arithmetical calculations of the Forecast and the adoption of the accounting policies thereof, and our work does not constitute any valuation of the equity interest of any of the Targets. We have assumed, without independent verification, the accuracy of the parameters stated in the Business Valuation Report.

We have reviewed the Forecast included in the Business Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Company, each of the Targets and Crowe Horwath where (i) the historical performance of the Targets, (ii) the calculations of the Forecast, and (iii) the qualifications, bases and assumptions set out in the Business Valuation Report were discussed. We have also considered the letter as set out in Appendix VI 2(A) to the Circular on the calculations of the discounted cash flows on which the Forecast is based. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Targets may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by Crowe Horwath, for which Crowe Horwath and the Company are responsible, we are satisfied that the Forecast included in the Business Valuation Report and disclosed in the Circular, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you. The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
China International Capital Corporation
Hong Kong Securities Limited
Yongren Chen
Executive Director

* *For identification purposes only.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the issued share capital of the Company was 1,500,360,150 Shares.

Since 31 December 2015 (being the date to which the latest published audited accounts of the Group were prepared) and up to the Latest Practicable Date, 1,000,000 new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company had (i) 38,520,000 share options outstanding under the share option scheme adopted by the Company on 31 May 2011; and (ii) convertible bonds with an aggregate principal amount of HK$791 million at on initial conversion price of HK$1.13 as described in the announcement of the Company dated 28 February 2013 and the circular of the Company dated 21 December 2012. The Company also intends to issue the New Bonds in the amount and on the terms and conditions elaborated in the Letter from the Board.

Save for such options and convertible bonds, the Company does not have any outstanding options, warrants, derivatives and other securities convertible or exchangeable into Shares or any other derivatives as at the Latest Practicable Date. The issued Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchanges.

The New Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with all other Shares in issue in the share capital of the Company including as regards to dividends, voting rights and return of capital.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

Long positions in the Shares and/or underlying shares of the Company:

Name of director	Number of Shares and/or underlying shares held, capacity and nature of interest: Directly beneficially owned	Through a controlled corporation	Total	Percentage of the Company's issued share capital
Mr. E Meng	601,000	–	601,000	0.04
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	0.69
	2,201,000	8,792,755	10,993,755	0.73

The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company controlled by Mr. Ng Kong Fat, Brian and his associate.

Long positions in share options of the Company:

Name of Director	Number of share options directly beneficially owned
Mr. E Meng	6,770,000
Mr. Ng Kong Fat, Brian	5,500,000
Dr. Jin Lizuo	670,000
Dr. Huan Guocang	670,000
Dr. Wang Jianping	670,000
	14,280,000

These share options were granted on 21 June 2011 at an exercise price of HK$1.25 per Share. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021. The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

Long positions in the ordinary shares in an associated corporation of the Company – Beijing Enterprises Holdings Limited:

Name of director	Number of ordinary shares held, capacity and nature of interest: Directly beneficially owned	Total	Percentage of the associated corporation's issued share capital
Mr. E Meng	30,000	30,000	0.002

Long positions in share options in an associated corporation of the Company – Beijing Properties (Holdings) Limited:

Name of director	Number of share options directly beneficially owned		
	Note (i)	*Note (ii)*	**Total**
Mr. E Meng	5,000,000	3,600,000	8,600,000

Notes:

(i) These share options were granted on 28 October 2011 at an exercise price of HK$0.465 per share. These share options may be exercised at any time commencing on 28 October 2011, and if not otherwise exercised, will lapse on 27 October 2021.

(ii) These share options were granted on 1 June 2012 at an exercise price of HK$0.41 per share. These share options may be exercised at any time commencing on 1 June 2012, and if not otherwise exercised, will lapse on 31 May 2022.

Save as disclosed above, as at the Latest Practicable Date, there were no interest or short positions of the Directors or chief executives of the Company in the Shares and the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) As at the Latest Practicable Date, amongst others, each of BEGCL, Beijing Enterprises Group (BVI) Company Limited ("**BEBVI**"), BEHL and Idata Finance Trading Limited ("**Idata**") is a substantial Shareholder disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO. Mr. E Meng is a vice general manager and the chief financial officer of BEGCL, an executive director and the executive vice president of BEHL and directors of BEBVI and Idata. Mr. Ke Jian is a vice president of BEHL and Ms. Sha Ning is an assistant president of BEHL.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

(d) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. COMPETING BUSINESS

At the Latest Practicable Date, Mr. E Meng is a director of BEHL and has interest in 30,000 shares in BEHL. Save as disclosed above, none of the Directors or their respective associates (as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any direct or indirect interest in a business which competes or is likely to compete with the business of the Group.

7. QUALIFICATIONS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this in this circular:-

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 5 (advising on future contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Platinum Securities Company Limited	Licensed to conduct Type 1, (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Haiwen & Partners	Legal advisers as to PRC Laws
Ernst & Young	Certified Public Accountants
Crowe Horwath (HK) Consulting & Valuation Limited	Independent professional valuer
Frost & Sullivan	Industry consultant

As at the Latest Practicable Date, each of the above experts had no interest in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and each of the above experts had no interest, either directly or indirectly, in any assets which have been, since 31 December 2015, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

8. MATERIAL CONTRACTS

The following contracts (not being contract entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the issue of this circular and are material:

(a) the bought and sold notes dated 18 August 2014 entered into between Prime Technology Group Limited and E-tron Limited, direct wholly-owned subsidiaries of the Company, as vendors and Farco Holdings Limited as purchaser, pursuant to which Prime Technology Group Limited and E-tron Limited agreed to sell and Farco Holdings Limited agreed to purchase 189,551,344 ordinary shares of HK$0.10 each in the share capital of China Information Technology Development Limited (stock code: 8178) at the aggregate consideration of HK$22,935,712.63 (excluding transaction costs), details of which are disclosed in the announcement dated 18 August 2014 of the Company;

(b) the joint venture master agreement dated 4 September 2014 entered into between BDEP (Haidian) and Beijing Lvhaineng Environmental Protection Co., Ltd.* in relation to the establishment of the Haidian Licensed Company, details of which are disclosed in the circular of the Company dated 10 October 2014;

(c) the licensed operation agreement dated 26 December 2014 entered into between the Haidian Licensed Company and Commission of City Administration and Environment, Haidian District, Beijing Municipality in respect of the Haidian Project, details of which are disclosed in the announcement dated 29 December 2014 of the Company;

(d) the disposal agreement dated 23 December 2014 entered into between Beijing Enterprises Group Information Limited and Prime Technology Group Limited, pursuant to which Prime Technology Group Limited agreed to sell and dispose of a 72% shareholding in B E Information Technology Group Limited and shareholder's loans made to it and its subsidiaries at a total consideration of HK$126,000,000, details of which are disclosed in the circular of the Company dated 23 April 2015; and

(e) the Sale and Purchase Agreement.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up.

10. GENERAL

(a) The registered office of the Company is situated at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The share registrar of the Company is Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Mr. Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

(d) This circular has been printed in English and Chinese, in the event of inconsistency, the English version shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays other than public holidays up to and including 18 July 2016:

(a) the articles of association of the Company;

(b) the annual reports of the Group for the three financial years ended 31 December 2013, 2014 and 2015;

(c) the accountant's report on GSWM, the text of which is set out in Appendix IIIA to this circular;

(d) the accountant's report on Ha'erbin Shuangqi, the text of which is set out in Appendix IIIB to this circular;

(e) the accountant's report on Beikong Shuyang, the text of which is set out in Appendix IIIC to this circular;

(f) the accountant's report on Beikong Wenchang, the text of which is set out in Appendix IIID to this circular;

(g) the accountant's report on Hunan Hengxing, the text of which is set out in Appendix IIIE to this circular;

(h) the report of Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(i) the business valuation report of Ha'erbin Shuangqi Project, Beikong Shuyang Project and Hunan Hengxing Project as set out in Appendix VI to this circular;

(j) the letter from the Independent Board Committee, the text of which is set out pages 59 and 60 of this circular;

(k) the letter from Platinum to the Independent Board Committee and the Independent Shareholders, the text of which is set out of pages 61 to 104 of this circular; and

(l) the written consents referred to in paragraph headed "Qualifications" of this appendix;

(m) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(n) the Sale and Purchase Agreement;

(o) this circular.

北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 154)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Beijing Development (Hong Kong) Limited (the "**Company**") will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 18 July 2016 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions of the Company. Words and expressions that are not expressly defined in this notice of EGM shall have the same meaning given to them in the circular of the Company dated 24 June 2016 (the "**Circular**").

ORDINARY RESOLUTION

1. "**THAT**:

   (a) the entry by the Company into the Sale and Purchase Agreement (a copy of which has been produced at the meeting and signed by the chairman of the meeting for identification purposes), pursuant to which the Company conditionally agreed to acquire and BEHL conditionally agreed to sell the Sale Interests at an aggregate consideration of RMB1,850,000,000 on and subject to the terms and conditions contained therein, and the transactions contemplated thereunder (including but not limited to the issue of the New Bonds and the allotment and issue of the New Conversion Shares upon conversion of the New Bonds), be and are hereby approved, ratified and confirmed;

(b) subject to the Listing Committee granting the listing of, and permission to deal in, the New Conversion Shares to be allotted and issued upon conversion of the New Bonds, the Directors be and are hereby granted a specific mandate to exercise the powers of the Company to issue the New Bonds, and to allot and issue the New Conversion Shares upon conversion of the New Bonds pursuant and subject to the terms of the instrument(s) of the New Bonds and the Sale and Purchase Agreement; and

(c) the Directors be and are hereby authorised for and on behalf of the Company to do all such acts, matters and things for and on behalf of the Company as they may consider necessary or expedient to implement and/or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder or incidental thereto.''

SPECIAL RESOLUTION

2. "**THAT** the English name of the Company be changed from "Beijing Development (Hong Kong) Limited" to "Beijing Enterprises Environment Group Limited" and that the Chinese name of the Company be changed from "北京發展(香港)有限公司" to "北京控股環境集團有限公司" with effect from the date on which the Registrar of Companies in Hong Kong enters the new English and Chinese names of the Company on the register of companies in place of the former English and Chinese names of the Company; and that any Director and/or the company secretary of the Company be and is hereby authorised for and on behalf of the Company to do all such acts, matters and things and execute all such documents on behalf of the Company, including under seal where applicable, as they may consider necessary or expedient to implement and/or give effect to the foregoing change of name of the Company."

By order of the Board of
Beijing Development (Hong Kong) Limited
Wong Kwok Wai, Robin
Company Secretary

Hong Kong, 24 June 2016

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint a proxy (or at most two proxies) to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.

2. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before either the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjournment thereof if the shareholder so desires.

3. As at the date hereof, the executive Directors are Mr. E Meng, Mr. Ke Jian, Ms. Sha Ning, Ms. Qin Xuemin and Mr. Ng Kong Fat, Brian, and the independent non-executive Directors are Dr. Jin Lizuo, Dr. Huan Guocang, Dr. Wang Jianping, Prof. Nie Yongfeng and Mr. Cheung Ming.