CIRCULAR
DATED 12 NOVEMBER 2014

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

Unless otherwise defined, capitalised terms appearing on the cover of this Circular bear the same meanings as defined in this Circular.

If you have sold all your shares in the capital of HanKore Environment Tech Group Limited (the "**Company**"), you should immediately forward this Circular, the enclosed Notice of Special General Meeting and the Proxy Form to the purchaser or to the stockbroker or to the bank or to the agent through whom you effected the sale for onward transmission to the purchaser.

The SGX-ST assumes no responsibility for the contents of this Circular, including the correctness of any statements or opinions made or reports contained in this Circular. The SGX-ST has not in any way considered the merits of the shares or units of shares being offered for investment. Approval in-principle granted by the SGX-ST for the listing and quotation of the Consideration Shares on the SGX-ST is not to be taken as an indication of the merits of the Company, the HanKore Group, the Target Group, the Enlarged Group, the Shares or the Consideration Shares.

YOUR ATTENTION IS DRAWN TO THE "RISK FACTORS" SECTION IN THE "LETTER TO SHAREHOLDERS FROM THE DIRECTORS OF HANKORE ENVIRONMENT TECH GROUP LIMITED" AS WELL AS APPENDIX E TO THIS CIRCULAR, WHICH YOU SHOULD READ CAREFULLY.

汉科环境科技集团
HanKore Environment Tech Group Limited

HANKORE ENVIRONMENT TECH GROUP LIMITED
(Company Registration Number: 34074)
(Incorporated in Bermuda)

CIRCULAR TO SHAREHOLDERS in relation to:

(1) THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED;

(2) THE PROPOSED ALLOTMENT AND ISSUE OF 1,940,269,305 CONSIDERATION SHARES TO CHINA EVERBRIGHT WATER HOLDINGS LIMITED (THE "**VENDOR**") IN SATISFACTION OF THE CONSIDERATION FOR THE PROPOSED ACQUISITION;

(3) THE PROPOSED WHITEWASH RESOLUTION;

(4) THE APPOINTMENT OF CHEN XIAOPING AS A NEW DIRECTOR UPON COMPLETION OF THE PROPOSED ACQUISITION;

(5) THE APPOINTMENT OF WANG TIANYI AS A NEW DIRECTOR UPON COMPLETION OF THE PROPOSED ACQUISITION;

(6) THE APPOINTMENT OF AN XUESONG AS A NEW DIRECTOR UPON COMPLETION OF THE PROPOSED ACQUISITION;

(7) THE APPOINTMENT OF YANG ZHIQIANG AS A NEW DIRECTOR UPON COMPLETION OF THE PROPOSED ACQUISITION;

(8) THE PROPOSED VARIATION OF THE GENERAL SHARE ISSUE MANDATE UPON COMPLETION OF THE PROPOSED ACQUISITION; AND

(9) THE PROPOSED CHANGE OF NAME OF THE COMPANY TO "CHINA EVERBRIGHT WATER LIMITED (中国光大水务有限公司)".

DBS

Financial Adviser to the Company in respect of the Proposed Acquisition
DBS BANK LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 196800306E)

NOMURA

Financial Adviser to the Vendor in respect of the Proposed Acquisition
NOMURA INTERNATIONAL (HONG KONG) LIMITED
(Incorporated in Hong Kong)
(Hong Kong Companies Registry Number: 6679)

PRIME Partners

Independent Financial Adviser in respect of the Proposed Acquisition and the Proposed Whitewash Resolution
PRIMEPARTNERS CORPORATE FINANCE PTE. LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200207389D)

Last date and time for lodgement of Proxy Form	:	**3 December 2014 at 9:30 a.m.**
Date and time of Special General Meeting	:	**5 December 2014 at 9:30 a.m.**
Place of Special General Meeting	:	**Pan Pacific Singapore Ocean 1-3, Level 2, 7 Raffles Boulevard Marina Square, Singapore 039595**

TABLE OF CONTENTS

		Page
CORPORATE INFORMATION		1
DEFINITIONS		5
EXCHANGE RATES		15
INDICATIVE TIMETABLE		17
CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS		18
LETTER TO SHAREHOLDERS FROM THE DIRECTORS OF HANKORE ENVIRONMENT TECH GROUP LIMITED		20
1.	INTRODUCTION	21
2.	THE PROPOSED ACQUISITION AND THE PROPOSED ALLOTMENT	22
3.	THE PROPOSED WHITEWASH RESOLUTION	34
4.	THE PROPOSED CHANGE OF NAME AND PROPOSED VARIATION OF THE GENERAL SHARE ISSUE MANDATE	37
5.	FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION	39
6.	THE ENLARGED GROUP	39
7.	SELECTED FINANCIAL INFORMATION	99
8.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION OF THE ENLARGED GROUP	108
9.	RISK FACTORS	151
10.	MATERIAL CONTRACTS	152
11.	MATERIAL LITIGATION	157
12.	NO MATERIAL EFFECT ON FINANCIAL POSITION OF THE COMPANY	158
13.	NO MATERIAL EFFECT ON FINANCIAL POSITION OF THE TARGET COMPANY	158
14.	INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS	159
15.	DIRECTORS' RECOMMENDATIONS	160
16.	CORPORATE SOCIAL RESPONSIBILITY	161
17.	SPECIAL GENERAL MEETING	162
18.	ACTION TO BE TAKEN BY SHAREHOLDERS	162
19.	RESPONSIBILITY STATEMENTS BY DIRECTORS	162
20.	RESPONSIBILITY STATEMENT BY TARGET COMPANY'S DIRECTORS	163
21.	RESPONSIBILITY STATEMENT BY THE FINANCIAL ADVISER	163
22.	RESPONSIBILITY STATEMENT BY NOMURA	163
23.	CONSENTS	164
24.	INTERESTS OF FINANCIAL ADVISER AND IFA	165
25.	EXPERTS	165
26.	DOCUMENTS AVAILABLE FOR INSPECTION	166
27.	ADDITIONAL INFORMATION	167

		Page
LETTER TO SHAREHOLDERS FROM THE DIRECTORS OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED		168
1.	INTRODUCTION	168
2.	INFORMATION ON THE TARGET GROUP	168
3.	HISTORY AND BUSINESS	176
4.	SELECTED CONSOLIDATED FINANCIAL INFORMATION	211
5.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS	225
6.	INTERESTED PERSON TRANSACTIONS	249
7.	CONFLICTS OF INTEREST	258
8.	MATERIAL CONTRACTS OF THE TARGET GROUP	261
9.	MATERIAL LITIGATION OF THE TARGET GROUP	262
APPENDIX A	— SUMMARY OF INDEPENDENT VALUATION REPORT BY AMERICAN APPRAISAL CHINA LIMITED	A-1
APPENDIX B	— INDEPENDENT VALUATION REPORT BY GRANT SHERMAN APPRAISAL LIMITED	B-1
APPENDIX C	— FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION	C-1
APPENDIX D	— IFA LETTER	D-1
APPENDIX E	— RISK FACTORS	E-1
APPENDIX F	— GOVERNMENT REGULATIONS	F-1
APPENDIX G	— TAXATION AND EXCHANGE CONTROLS	G-1
APPENDIX H	— AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED AND ITS SUBSIDIARIES FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013	H-1
APPENDIX I	— AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED AND ITS SUBSIDIARIES FOR THE SIX MONTHS ENDED 30 JUNE 2014	I-1
APPENDIX J	— AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HANKORE ENVIRONMENT TECH GROUP LIMITED AND ITS SUBSIDIARIES FOR THE YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013 AND THE SIX MONTHS ENDED 30 JUNE 2014	J-1
APPENDIX K	— UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP	K-1
APPENDIX L	— SUMMARY OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS OF THE COMPANY	L-1
NOTICE OF SPECIAL GENERAL MEETING		M-1

CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Chen Dawei, David *(Executive Chairman)* Nie Jian Sheng *(Executive Director and Chief Executive Officer)* Yau Wing-Yiu *(Executive Director and Chief Financial Officer)* Lin Zhe Ying *(Executive Director)* Chen Da Zhi *(Non-executive Director)* Lim Yu Neng, Paul *(Lead Independent Director)* Lee Kheng Joo *(Independent Director)* Cheng Fong Yee, Fonda *(Independent Director)*
PROPOSED NEW BOARD OF DIRECTORS	:	Chen Xiaoping *(Non-executive Director and Chairman)* Wang Tianyi *(Executive Director, Vice-Chairman and Chief Executive Officer)* Chen Dawei, David *(Executive Director and Vice-Chairman)* An Xuesong *(Executive Director and Standing Vice-President)* Yang Zhiqiang *(Non-executive Director)* Lim Yu Neng, Paul *(Independent Director)* Lee Kheng Joo *(Independent Director)* Cheng Fong Yee, Fonda *(Independent Director)*
COMPANY SECRETARIES	:	Tan Min-Li, LLB (Hons) Tay Chee Wah, ICSA
REGISTERED OFFICE OF HANKORE ENVIRONMENT TECH GROUP	:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
FINANCIAL ADVISER TO THE COMPANY IN RESPECT OF THE PROPOSED ACQUISITION	:	DBS Bank Ltd. 12 Marina Boulevard Level 46 Marina Bay Financial Centre Tower 3 Singapore 018982
FINANCIAL ADVISER TO THE VENDOR IN RESPECT OF THE PROPOSED ACQUISITON	:	Nomura International (Hong Kong) Limited 30/F, Two International Finance Centre 8 Finance Street Central, Hong Kong
AUDITORS OF THE COMPANY	:	KPMG LLP 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581 Partner-in-charge : Tan Huay Lim (a member of the Institute of Singapore Chartered Accountants)

CORPORATE INFORMATION

AUDITORS OF THE TARGET COMPANY	:	KPMG 8th Floor, Prince's Building 10 Chater Road Central, Hong Kong Partner-in-charge: Lee Ka Nang (a member of the Hong Kong Institute of Certified Public Accountants)
REPORTING ACCOUNTANTS OF THE COMPANY IN RELATION TO THE PROPOSED ACQUISITION	:	KPMG LLP 16 Raffles Quay #22-00 Hong Leong Building Singapore 048581 Partner-in-charge: Tan Huay Lim (a member of the Institute of Singapore Chartered Accountants)
LEGAL ADVISER TO THE COMPANY ON SINGAPORE LAW IN RESPECT OF THE PROPOSED ACQUISITION	:	WongPartnership LLP 12 Marina Boulevard Level 28 Marina Bay Financial Centre Tower 3 Singapore 018982
LEGAL ADVISER TO THE COMPANY ON PRC LAW IN RESPECT OF THE PROPOSED ACQUISITION	:	Global Law Office 15/F Tower 1 China Central Place No. 81 Jianguo Road Chaoyang District Beijing 100025, PRC
LEGAL ADVISER TO THE VENDOR AND THE TARGET COMPANY ON SINGAPORE LAW IN RESPECT OF THE PROPOSED ACQUISITION	:	Allen & Gledhill LLP One Marina Boulevard #28-00 Singapore 018989
LEGAL ADVISERS TO THE VENDOR AND THE TARGET COMPANY ON PRC LAW IN RESPECT OF THE PROPOSED ACQUISITION	:	Allbright Law Offices 23/F, Tower 1, Excellence Century Centre Fuhua 3rd Road Shenzhen Futian District, China 518000 Grandall Law Firm 9/F, Taikang Financial Tower 38 North Road East Third Ring Beijing, 100026 China
LEGAL ADVISER TO THE FINANCIAL ADVISER TO THE COMPANY ON SINGAPORE LAW IN RESPECT OF THE PROPOSED ACQUISITION	:	Allen & Overy LLP 50 Collyer Quay #09-01 OUE Bayfront Singapore 049321

INDEPENDENT FINANCIAL ADVISER IN RELATION TO THE PROPOSED ACQUISITION AND THE PROPOSED WHITEWASH RESOLUTION	:	PrimePartners Corporate Finance Pte. Ltd. 20 Cecil Street #21-02 Equity Plaza Singapore 049705
INDEPENDENT VALUERS	:	American Appraisal China Limited 13/F, On Hing Building 1 On Hing Terrace, Central, Hong Kong Director-in-charge: Ricky Lee Grant Sherman Appraisal Limited Unit 1005, 10F, AXA Centre 151 Gloucester Road, Wanchai, Hong Kong Directors-in-charge: Keith C.C. Yan / Jacqueline W. Huang
SHARE REGISTRAR AND SHARE TRANSFER AGENT	:	Codan Services Limited Clarendon House, PO Box HM 1022 Hamilton HM DX Bermuda
SHARE TRANSFER AGENT IN SINGAPORE	:	Boardroom Corporate & Advisory Services Pte Ltd 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623
PRINCIPAL BANKERS TO THE TARGET GROUP	:	Shenzhen Overseas Chinese Town Sub-branch, China CITIC Bank Level BM, Zhihui Plaza, Qiaoxiang Road, Nanshan District Shenzhen City, Guangdong Province, China Qingdao Branch, China CITIC Bank No. 22, Mid Hong Kong Road Shinan District, Qingdao City Shandong Province, China Jiangyin Sub-branch, China CITIC Bank No.3, Mid Renmin Road Jiangyin City, Jiangsu Province, China Banking Department of Ji'nan Branch, Bank of China Level 2, Bank of China Plaza No. 22, Luoyuan Street, Lixia District, Ji'nan City Shandong Province, China

Huaiyin Sub-branch, Bank of China
No. 583, Jingqi Road
Huaiyin District, Ji'nan City
Shandong Province, China

Zibo Branch, China Merchants Bank
No. 1A, 12 West Renmin Road
Zhangdian District, Zibo City
Shandong Province, China

Chinese Mercantile Bank
Unit 101-B101, B102, Chegongmiao Lvjing Square
Shennan Street, Futian District, Shenzhen City
Guangdong Province, China

Quanjing Sub-branch, China Everbright Bank
No. 45, Jingshiyi Road
Shizhong District, Ji'nan City
Shandong Province, China

Zibo Gaoxin Sub-branch, Industrial and Commercial Bank of China
No. 268, Liuquan Road, Zhangdian District, Zibo City
Shandong Province, China

Tianqiao Sub-branch, Industrial and Commercial Bank of China
No. 7, Dongxi Danfeng Road
Tianqiao District, Ji'nan City
Shandong Province, China

PRINCIPAL BANKERS TO THE COMPANY : Industrial and Commercial Bank of China Limited
No. 55 Fu Xing Men Nei Street,
Xicheng District,
Beijing 100140, PRC

Oversea-Chinese Banking Corporation Limited
65 Chulia Street
#06-00 OCBC Centre
Singapore 049513

In this Circular, unless the context otherwise requires, the following terms or expressions shall have the following meanings:

Entities in the Proposed Transactions

"CEIL"	:	China Everbright International Limited, the holding company of the Vendor which is listed on the Main Board of The Stock Exchange of Hong Kong Limited
"CEIL Group"	:	CEIL and its subsidiaries
"Company" or "HanKore"	:	HanKore Environment Tech Group Limited
"Enlarged Group"	:	The HanKore Group and the Target Group immediately following the completion of the Proposed Acquisition
"HanKore Group"	:	The Company and/or its subsidiaries and "HanKore Group Company" refers to any one of them
"Target Company" or "CEWIL"	:	China Everbright Water Investments Limited
"Target Group"	:	The Target Company and/or the Target Subsidiaries and "Target Group Company" refers to any one of them
"Target Subsidiaries"	:	Subsidiaries of the Target Company, and "Target Subsidiary" refers to any one of them
"Vendor"	:	China Everbright Water Holdings Limited

Other Companies, Corporations and Organisations

"ACRA"	:	Accounting & Corporate Regulatory Authority of Singapore
"American Appraisal"	:	American Appraisal China Limited
"CDP"	:	The Central Depository (Pte) Limited
"Financial Adviser" or "DBS"	:	DBS Bank Ltd.
"Grant Sherman"	:	Grant Sherman Appraisal Limited
"HKSE"	:	The Stock Exchange of Hong Kong Limited
"IFA"	:	PrimePartners Corporate Finance Pte. Ltd.
"Independent Valuers"	:	American Appraisal and Grant Sherman
"KPMG HK"	:	KPMG
"MAS"	:	The Monetary Authority of Singapore

"Nomura"	:	Nomura International (Hong Kong) Limited
"Reporting Accountant" or "KPMG SG"	:	KPMG LLP
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"SIC"	:	Securities Industry Council
"SAFE"	:	State Administration of Foreign Exchange (中国国家外汇管理局)

General

"1H"	:	Six months period ended or ending 30 June
"Acquisition Agreement"	:	Has the meaning ascribed to it in Section 1.1 of the HanKore Letter
"AGM"	:	Annual general meeting
"Announcement"	:	Announcement by the Company dated 2 June 2014
"Articles of Association"	:	The articles of association of a company, as amended from time to time
"Associate"	:	(a) In relation to any director, CEO, Substantial Shareholder or Controlling Shareholder (being an individual) means: (i) his immediate family; (ii) his trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more; (b) In relation to a Substantial Shareholder or Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more
"Audit Committee"	:	The audit committee of the Company or the Enlarged Group, for the time being, as the case may be

"Board"	:	The board of Directors of the Company for the time being
"Board Committees"	:	Has the meaning ascribed to it in Section 6.13 of the HanKore Letter
"BOO"	:	Build-Own-Operate
"BOT"	:	Build-Operate-Transfer
"BT"	:	Build-Transfer
"Business Day"	:	A day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are open for business in Singapore, Hong Kong and the PRC
"BVI"	:	The British Virgin Islands
"CEO"	:	Chief Executive Officer
"CFO"	:	Chief Financial Officer
"Circular"	:	This circular to Shareholders dated 12 November 2014
"Code"	:	The Singapore Code on Take-overs and Mergers
"Code of Corporate Governance"	:	Code of Corporate Governance 2012
"Companies Act"	:	Companies Act (Chapter 50 of Singapore), as amended from time to time
"Completion"	:	Completion of the Proposed Acquisition under the Acquisition Agreement
"Completion Date"	:	Has the meaning ascribed to it in Section 1.1 of the HanKore Letter
"Concert Parties Group"	:	Has the meaning ascribed to it in Section 3.2 of the HanKore Letter
"Conditions Precedent"	:	Has the meaning ascribed to it in Section 2.4 of the HanKore Letter
"Consideration"	:	Has the meaning ascribed to it in Section 2.3 of the HanKore Letter
"Consideration Shares"	:	The 1,940,269,305 new Shares to be allotted and issued by the Company to the Vendor at the Effective Issue Price in satisfaction of the Consideration for the Proposed Acquisition

"Controlling Shareholder"	:	A person who: (a) holds, directly or indirectly, 15.0% or more of the nominal amount of all voting shares in the Company or the Enlarged Group, as the case may be (unless otherwise excepted by SGX-ST); or (b) in fact exercises control over the Company or the Enlarged Group, as the case may be
"Directors"	:	The directors of the Company for the time being
"Effective Issue Price"	:	S$0.625, being the effective issue price for each Consideration Share calculated in accordance with the Acquisition Agreement and as described in Section 2.3 of the HanKore Letter, rounded to 3 decimal places
"Enlarged Group Directors"	:	The Proposed New Directors and the Directors proposed to remain on the Board following the completion of the Proposed Acquisition, namely Chen Xiaoping, Wang Tianyi, Chen Dawei, David, An Xuesong, Yang Zhiqiang, Lim Yu Neng, Paul, Lee Kheng Joo and Cheng Fong Yee, Fonda
"Enlarged Share Capital"	:	The enlarged issued share capital of the Company after Completion on a fully diluted basis assuming all outstanding options under the Company's employee share option scheme are exercised between the Latest Practicable Date and Completion
"EPS"	:	Earnings per share
"Executive Directors"	:	The executive Directors
"FIE"	:	The foreign-invested enterprise
"Framework Agreement"	:	Has the meaning ascribed to it in Section 1.1 of the HanKore Letter
"FY"	:	Unless otherwise specified in this Circular, the financial year of the respective entities as follows: (a) in the case of the HanKore Group, the financial year ended or ending 30 June, as the case may be; and

		(b) in the case of the Target Group and the Enlarged Group, the financial year ended or ending 31 December, as the case may be
"HanKore Letter"	:	The "Letter to Shareholders from the Directors of HanKore Environment Tech Group Limited" in this Circular
"Hong Kong"	:	The Hong Kong Special Administrative Region of the PRC
"IFA Letter"	:	The letter from the IFA to the Independent Directors as set out in Appendix D to this Circular
"Independent Directors"	:	Directors who are considered independent for the purposes of making the recommendation to Independent Shareholders in relation to the Proposed Whitewash Resolution
"Independent Shareholders"	:	Shareholders who are independent of the Vendor and parties acting in concert with them
"Independent Valuation Reports"	:	The independent valuation reports prepared by the respective Independent Valuers as set out in Appendix A and Appendix B to this Circular
"Interested Persons"	:	The persons referred to in Section 6.16 of the HanKore Letter
"Interested Person Transactions"	:	The transactions described in Section 6.16 of the HanKore Letter
"Latest Practicable Date" or "LPD"	:	The latest practicable date prior to the printing of this Circular, being 3 November 2014
"Listing Manual"	:	The listing manual of the SGX-ST, as amended from time to time
"Long-Stop Date"	:	12 December 2014 or such other date as may be mutually agreed by the Company and the Vendor in writing
"Market Day"	:	A day on which the SGX-ST is open for trading in securities
"Moratorium"	:	Has the meaning ascribed to it in Section 6.5 of the HanKore Letter

"Multicurrency Medium Term Note Program" or "MTN" or "Programme"	:	The S$300,000,000 multicurrency medium term note programme pursuant to an information memorandum dated 23 July 2013, whereby the Company will issue notes from time to time on a syndicated or non-syndicated basis, and the maximum aggregate principal amount of the notes outstanding at any time shall be S$300,000,000 or as may be agreed between the Company and DBS Bank Ltd. as the arranger
"Nominal Issue Price"	:	S$0.703, being the nominal issue price as described in Section 2.3 of the HanKore Letter
"Nominating Committee"	:	The nominating committee of the Company or the Enlarged Group, for the time being, as the case may be
"Notice of SGM"	:	The notice of SGM as set out on page M-1 of this Circular
"NTA"	:	Net tangible assets
"PRC"	:	People's Republic of China
"Proposed Acquisition"	:	The proposed acquisition of the Sale Shares by the Company from the Vendor for the Consideration to be satisfied by the allotment and issue of 1,940,269,305 Consideration Shares to the Vendor at the Effective Issue Price for each Consideration Share in satisfaction of the Consideration
"Proposed Executive Officers"	:	The new executive officers proposed to be appointed by the Company or the existing executive officers who will continue in the senior management team (as the case may be) following the completion of the Proposed Acquisition, namely Wang Tianyi, An Xuesong, Lin Zhe Ying and Yau Wing-Yiu
"Proposed New Directors"	:	The directors proposed to be appointed to the Board following the completion of the Proposed Acquisition, namely Chen Xiaoping, Wang Tianyi, An Xuesong and Yang Zhiqiang
"Proposed Transactions"	:	The proposed transactions as set out in this Circular comprising: (a) the Proposed Acquisition; (b) the proposed allotment and issue of the Consideration Shares to the Vendor at the Effective Issue Price in satisfaction of the Consideration for the Proposed Acquisition;

		(c) the Proposed Whitewash Resolution; (d) the appointment of Chen Xiaoping as a new director upon completion of the Proposed Acquisition; (e) the appointment of Wang Tianyi as a new director upon completion of the Proposed Acquisition; (f) the appointment of An Xuesong as a new director upon completion of the Proposed Acquisition; (g) the appointment of Yang Zhiqiang as a new director upon completion of the Proposed Acquisition; (h) the proposed variation of the general share issue mandate upon completion of the Proposed Acquisition; and (i) the proposed change of name of the Company to "China Everbright Water Limited (中国光大水务有限公司)".
"Proposed Whitewash Resolution"	:	A whitewash resolution approved by a majority of the Shareholders in a general meeting of the Company in accordance with the requirements set out in Appendix 1 of the Code in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendor who would incur an obligation to make a mandatory takeover offer under Rule 14 of the Code for all of the Shares not already owned by the Vendor and persons acting in concert with the Vendor as a result of the Proposed Acquisition, provided that the Vendor and any persons who are not Independent Shareholders abstain from voting on such whitewash resolution
"Proxy Form"	:	The proxy form in respect of the SGM as set out in this Circular
"Register of Members"	:	The register of members of the Company
"Remuneration Committee"	:	The remuneration committee of the Company or the Enlarged Group, for the time being, as the case may be
"Sale Shares"		The two (2) issued and paid-up ordinary share of par value US$1.00 of the Target Company, representing the entire issued and paid-up capital of the Target Company

"Securities Account"	:	Securities account maintained by a Depositor with CDP but does not include a securities sub-account
"Securities and Futures Act"	:	Securities and Futures Act (Chapter 289 of Singapore), as amended from time to time
"SGM"	:	The special general meeting of the Company, the notice of which is set out in this Circular
"SGXNET"	:	A system network used by listed companies to send information and announcement to the SGX-ST or any other system networks prescribed by the SGX-ST
"Shares"	:	Ordinary shares in the capital of the Company
"Shareholders"	:	Registered holders of Shares, except that where the registered holder is CDP, the term "Shareholders" shall, in relation to such Shares, mean the Depositors whose securities accounts maintained with CDP are credited with Shares
"SIC Conditions"	:	Has the meaning ascribed to it in Section 3.2 of the HanKore Letter
"SIC Waiver"	:	Has the meaning ascribed thereto in Section 2.4(c) of the HanKore Letter
"Substantial Shareholder"	:	A person who has an interest in one or more voting shares of a company and the total votes attached to those shares is not less than 5.0% of the total votes attached to all the voting shares of that company
"Target Letter"	:	The "Letter to Shareholders from the Directors of China Everbright Water Investments Limited" in this Circular
"TOT"	:	Transfer-Operate-Transfer
"Tranche 1 Consideration Shares"	:	360 million new Shares at an issue price of $0.05 each, to be allotted and issued to Total Summit Technology Limited in satisfaction of the purchase consideration for the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Engineering Co., Ltd.
"Tranche 2 Consideration Shares"	:	Up to 180 million new Shares at an issue price of $0.05 each, to be allotted and issued to Total Summit Technology Limited in satisfaction of the contingent purchase consideration for the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Engineering Co., Ltd.

Currencies and Units of Measurements

"%" or "per cent."	:	Per centum or percentage
"CAGR"	:	compound annual growth rate
"HK$" or "HKD"	:	Hong Kong dollars
"km"	:	kilometre
"m^2"	:	square metre
"m^3"	:	cubic metre
"MW"	:	megawatt
"RMB"	:	Renminbi
"S$" or "SGD"	:	Singapore dollars and cents
"tonne"	:	1,000 kilograms
"US$" or "USD"	:	United States dollars

The terms "Depositor", "Depository Agent" and "Depository Register" shall have the same meanings ascribed to them, respectively, in Section 130A of the Companies Act.

The terms "acting in concert", "concert parties" and "associates" shall have the meanings ascribed to them, respectively, in the Code.

The terms "associate", "group" and "associated company" shall have the meanings ascribed to them, respectively, in the Fourth Schedule of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005.

The term "subsidiary" shall have the meaning ascribed to it in Section 5 of the Companies Act.

The term "interest" shall have the meaning ascribed to it in Section 7 of the Companies Act.

The terms "entity at risk, "interested person", "interested person transaction" and "Official List" shall have the meanings ascribed to them, respectively, in the section headed "Definitions and Interpretation" of the Listing Manual.

References to annual wastewater treatment capacity are calculated based on 24 hours of operations per day, for 365 days a year. References to daily wastewater treatment capacity are calculated based on 24 hours of operations per day.

References to Appendices are to appendices to this Circular. References to Sections are to sections of the HanKore Letter and Target Letter.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted. Any word defined under the Securities and Futures Act, the Companies Act or the Code or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning ascribed to it under the Securities and Futures Act, the Companies Act or the Code or any statutory modification thereof as the case may be, unless the context requires otherwise.

Any reference in this Circular to Shares being allotted to a person includes allotment to CDP for the account of that person.

Any reference to a time of day in this Circular shall be a reference to Singapore time, unless otherwise stated.

Any discrepancies in tables included herein between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain names with Chinese characters have been translated into English names for the convenience of Shareholders. Such translations may not be registered with the relevant PRC authorities and should not be construed as representing the Chinese characters. In the event of any inconsistency between the official Chinese names and the translated English names, the official Chinese names shall prevail.

EXCHANGE RATES

The following table sets out the closing and average exchange rates for S$ and RMB, for each of the past six (6) calendar months prior to the Latest Practicable Date. The table indicates the amount of RMB it would take to buy one (1) Singapore dollar:

	RMB/S$	
	Closing	**Average**
1 November 2014 to the Latest Practicable Date	4.739	4.739
October 2014	4.755	4.806
September 2014	4.812	4.858
August 2014	4.920	4.928
July 2014	4.948	4.988
June 2014	4.976	4.981
May 2014	4.981	4.984

The following table sets forth, for each of the financial periods indicated, the closing and average exchange rates. The average exchange rate has been calculated using the average of the exchange rates on the last day of each month during each year or period.

	RMB/S$	
	Closing	**Average**
2011	4.856	5.144
2012	5.102	5.051
2013	4.794	4.915
Six months ended June 2013	4.841	4.957
Six months ended June 2014	4.976	4.892

As at the Latest Practicable Date, the closing exchange rate between RMB and S$ is RMB4.739 to S$1.

The following table sets out the closing and average exchange rates for S$ and HK$, for each of the past six (6) months prior to the Latest Practicable Date. The table indicates the amount of HK$ it would take to buy one (1) Singapore dollar:

	HK$/S$	
	Closing	**Average**
1 November 2014 to the Latest Practicable Date	6.005	6.005
October 2014	6.033	6.085
September 2014	6.087	6.135
August 2014	6.207	6.207
July 2014	6.211	6.235
June 2014	6.217	6.197
May 2014	6.182	6.193

The following table sets forth, for each of the financial periods indicated, the closing and average exchange rates. The average exchange rate has been calculated using the average of the exchange rates on the last day of each month during each year or period:

	HK$/S$	
	Closing	**Average**
2011	5.991	6.196
2012	6.343	6.210
2013	6.139	6.201
Six months ended June 2013	6.118	6.242
Six months ended June 2014	6.217	6.153

As at the Latest Practicable Date, the closing exchange rate between HK$ and S$ is HK$6.005 to S$1.

The exchange rates quoted in the tables above are quoted from Bloomberg L.P. and are provided solely for information and should not be construed as representations that the RMB or HK$ amounts actually represent such S$ amounts or could be converted into S$ at the rates indicated, or at any other rate, or at all.

Each of Bloomberg L.P. has not consented to the inclusion of the exchange rates quoted in this Section and it is therefore not liable for the inclusion of these statements extracted from the information services provided by Bloomberg L.P. While reasonable actions have been taken to ensure that the information attributed to the abovementioned sources is reproduced in its proper form and context, and that the information is extracted accurately and fairly, there has been no independent review of the information extracted or verification of the accuracy of such information.

Where applicable, the exchange rates in these tables are used for translation of financial information disclosed elsewhere in this Circular. In certain parts of this Circular, RMB amounts and HK$ amounts have been converted into S$ amounts for the convenience of Shareholders, as appropriate.

INDICATIVE TIMETABLE

The following indicative timetable assumes that approval for all the resolutions proposed at the SGM is obtained on 5 December 2014.

Last date and time for lodgment of proxy forms for the SGM	:	3 December 2014 at 9:30 a.m.
Date and time of the SGM	:	5 December 2014 at 9:30 a.m.
Long-Stop Date of the Acquisition Agreement	:	12 December 2014 or such other date as may be mutually agreed by the Company and the Vendor in writing
Expected Completion Date	:	12 December 2014
Expected date of allotment and issuance of the Consideration Shares	:	12 December 2014

Shareholders should note that, save for the last date and time for lodgment of proxy forms for the SGM and the date and time of the SGM, the above timetable is indicative only and is subject to change.

For the events listed above which are described as “expected”, please refer to future announcement(s) by or on behalf of the Company to the SGX-ST for the exact dates and times of such events.

Where necessary, the Company may announce any changes to the timetable through the SGX-ST’s website at http://www.sgx.com.

All statements contained in this Circular, statements made in the press releases and oral statements that may be made by the Company or the Directors or key executives or employees acting on the Company's behalf, and/or by the Target Group, the Vendor, the directors or key executives or employees acting on the Target Group's behalf and/or by the Enlarged Group Directors that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by words that are biased or by forward-looking terms such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "if", "intend", "may", "possible", "probable", "project", "plan", "should", "will", "would" and or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company's, the Target Group's and/or the Enlarged Group's expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including but not limited to, statements as to:

(i) revenue and profitability;

(ii) any expected growth;

(iii) expected industry trends;

(iv) future expansion plans; and

(v) other matters discussed in this Circular regarding matters that are not historical facts,

are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's, the Target Group's and/or the Enlarged Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements.

These risk factors and uncertainties are discussed in more detail in this Circular.

Given the risks and uncertainties that may cause the actual future results, performance or achievements of the Company, the HanKore Group, the Target Group and/or the Enlarged Group to be materially different than expected, expressed or implied by the forward-looking statements in this Circular, you are advised not to place undue reliance on those statements.

None of the Company, the HanKore Group, the Target Group, the Financial Adviser, Nomura, their respective directors and executive officers, or any other person represents or warrants to you that the actual future results, performance or achievements of the Company, the HanKore Group, the Target Group and/or the Enlarged Group will be as discussed in those statements.

The actual results of the Company, the HanKore Group, Target Group and/or the Enlarged Group may differ materially from those anticipated in these forward-looking statements.

Further, the Company, the HanKore Group, the Target Group, the Financial Adviser and/or Nomura disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future, subject to compliance with all applicable laws and regulations and/or rules of the SGX-ST and/or any regulatory or supervisory body or agency.

The Company, the HanKore Group, the Target Group and their respective related corporations are, however, subject to the provisions of the Securities and Futures Act and the Listing Manual regarding corporate disclosure and continuing listing requirements.

HANKORE ENVIRONMENT TECH GROUP LIMITED

(Company Registration Number: 34074)
(Incorporated in Bermuda)

Directors:

Chen Dawei, David (*Executive Chairman*)
Nie Jian Sheng (*Executive Director and Chief Executive Officer*)
Yau Wing-Yiu (*Executive Director and Chief Financial Officer*)
Lin Zhe Ying (*Executive Director*)
Chen Da Zhi (*Non-executive Director*)
Lim Yu Neng, Paul (*Lead Independent Director)*
Lee Kheng Joo (*Independent Director*)
Cheng Fong Yee, Fonda (*Independent Director*)

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

12 November 2014

To: The Shareholders of HanKore Environment Tech Group Limited

Dear Sir/Madam

(1) The Proposed Acquisition of the entire issued and paid-up share capital of China Everbright Water Investments Limited for the consideration of RMB5,811,267,353 (being equivalent to S$1,212,230,370[(1)]);

(2) The proposed allotment and issue of 1,940,269,305 Consideration Shares to the Vendor in satisfaction of the Consideration for the Proposed Acquisition;

(3) The Proposed Whitewash Resolution;

(4) The appointment of Chen Xiaoping as a new director upon completion of the Proposed Acquisition;

(5) The appointment of Wang Tianyi as a new director upon completion of the Proposed Acquisition;

(6) The appointment of An Xuesong as a new director upon completion of the Proposed Acquisition;

(7) The appointment of Yang Zhiqiang as a new director upon completion of the Proposed Acquisition;

(8) The proposed variation of the general share issue mandate upon completion of the Proposed Acquisition; and

(9) The proposed change of name of the Company to "China Everbright Water Limited (中国光大水务有限公司)".

[(1)] Based on an agreed foreign exchange rate of RMB1 : S$0.2086 as at 31 December 2013.

1. INTRODUCTION

1.1 Background

On 30 December 2013, the Company announced that it had entered into a framework agreement with the Target Company in respect of the proposed acquisition of all the investments of CEIL in the environmental water sector (the "**Framework Agreement**").

On 2 June 2014, the Company announced that the Company had on 2 June 2014, entered into a conditional sale and purchase agreement (the "**Acquisition Agreement**") with the Vendor in respect of the Proposed Acquisition, pursuant to which the Company had agreed to acquire, and the Vendor had agreed to sell, the entire issued and paid-up share capital of the Target Company for a consideration of RMB5,811,267,353 (being equivalent to S$1,212,230,370, based on an agreed foreign exchange rate of RMB1 : S$0.2086 as at 31 December 2013), subject to the terms and conditions of the Acquisition Agreement.

Pursuant to the terms of the Acquisition Agreement, Completion shall take place on a date falling 10 Business Days after the date on which the last of the outstanding conditions precedent set out in Section 2.4 below have been fulfilled or waived by the Company and/or the Vendor (as the case may be), or such other date as the Vendor and the Company may mutually agree in writing (the "**Completion Date**").

Further information on the Acquisition Agreement is set out in Section 2 of the HanKore Letter.

The announcements made by the Company on 30 December 2013 and 2 June 2014 are available on the SGXNET.

1.2 Purpose of Circular

The Proposed Acquisition, if it proceeds to Completion, will result in a change of control of the Company and would constitute a "Very Substantial Acquisition" and a "Reverse Takeover" as defined under Chapter 10 of the Listing Manual, and will be subject to, *inter alia*, the approval of the Shareholders at a SGM.

The purpose of this Circular is to provide Shareholders with information pertaining to the Proposed Transactions for which the approval of the Shareholders will be sought at the SGM. Specifically, approval will be sought by way of ordinary resolutions for the Proposed Transactions, except for the proposed change of name of the Company to "China Everbright Water Limited (中国光大水务有限公司)" for which approval shall be sought by way of a special resolution.

Shareholders should note that the passing of Resolutions 2, 4, 5, 6, 7, 8 and 9 are conditional on the passing of Resolution 1 and Resolution 3 and the passing of Resolution 1 is conditional on the passing of Resolution 3. In addition, the passing of Resolution 3 is conditional on the passing of Resolution 1.

This Circular has been prepared solely for the purposes outlined above and may not be relied upon by any persons (other than the Shareholders to whom this Circular is despatched to by the Company) or for any other purpose.

2. THE PROPOSED ACQUISITION AND THE PROPOSED ALLOTMENT

2.1 Rationale for the Proposed Acquisition

The Company and the Target Company share a common vision to become one of the largest water treatment companies in the PRC. The Proposed Acquisition represents a major step towards achieving this shared vision. The Board believes that the Proposed Acquisition will be beneficial to and is in the best interests of the Company and the Shareholders for the following reasons:

(a) Upon Completion, the Company will become one of the largest water treatment companies in the PRC

Following the Proposed Acquisition, CEIL intends to utilise the Company as its sole platform for its water treatment business. However, there may be situations where CEIL may hold water treatment business assets outside the HanKore Group. Please refer to Section 7 of the Target Letter titled "Conflicts of Interest" for more information. Upon Completion, the Company will own a total of 32 wastewater treatment plants and 4 reusable water projects (with a total designed capacity of approximately 3.4 million tonnes per day), 2 wastewater source heat pump projects which service an area covering 305,000 m^2, 2 completed Build-Transfer projects (with a designed capacity of 110,000 tonnes per day), 56km pipeline network and 10 pump stations (investment scale equivalent to 250,000 tonnes per day), and will emerge as one of the largest and most established water treatment companies in the PRC.

Asset	**Company**	**Target Group**	**Total**
Wastewater treatment and reusable water projects			
Number of plants	11	25	36
Designed capacity ('000 tonnes/day)	1,570	1,837	3,407
Wastewater source heat pump project			
Service area ('000 m^2)	—	305	305
Others			
Completed Build-Transfer projects ('000 tonnes/day)	—	110 (2 projects)	110 (2 projects)
56km pipeline network and 10 pump stations (equivalent of '000 tonnes/day)	250	—	250

(b) The Proposed Acquisition would enhance the financial strength of the Company and would allow the Company to leverage on CEIL's and the Target Company's access to a larger pool of debt capital at lower cost

CEIL and the Target Company have access to a lower cost of debt funding vis-à-vis the Company. Following completion of the Proposed Acquisition, the Vendor will become the major shareholder of the Company. The Board believes that this will allow the Company to gain access to a larger pool of debt capital at lower cost and therefore enhance returns on current and future projects.

(c) The Proposed Acquisition would increase investor confidence and institutional investor interest, boosting the Company's ability to tap the equity capital markets for capital (if required)

The Proposed Acquisition is expected to boost investor confidence in the Company and attract greater interest from institutional investors, as (i) it would increase the market capitalisation of the Company, a result of a significant increase in terms of its scale of operations, earnings and assets; and (ii) the Proposed Acquisition would cause the Vendor, a PRC State-Owned Enterprise, to emerge as the Company's major shareholder. With greater investor confidence and stronger institutional interest, the Company's ability to tap the equity capital markets for capital (if required) is expected to be enhanced.

(d) The Proposed Acquisition would strengthen the track record and financial strength of the Company which would consequently raise the competitiveness of the Company vis-à-vis other wastewater players when bidding for public tenders

As the output of wastewater treatment projects directly impacts the living standards of the local population, local governments must have strong assurance that the selected bidder has the requisites to execute the project successfully. One of the most tangible and concrete ways of providing such assurance is through a strong track record and robust financial strength. The Proposed Acquisition would strengthen the track record and financial strength of the Company, which would consequently raise the competitiveness of the Company during public tenders for future projects vis-à-vis other wastewater players.

(e) The Proposed Acquisition would place the Company in a better position to pursue attractive business growth opportunities

Taking into account the factors listed above - a stronger combined track record, enhanced financial strength and better access to debt/equity capital - the Proposed Acquisition would place the Company in a better position to participate in the consolidation of small to medium size water treatment companies in the PRC, to take on larger projects, and attract more strategic partners in new deals and/or joint ventures.

2.2 Valuation of the Target Group and Target Group's properties

Pursuant to Rule 1015(3)(a) of the Listing Manual, a competent and independent valuer is required to be appointed to value the incoming business.

American Appraisal and Grant Sherman were commissioned respectively by the Company and the Vendor to undertake a valuation of the Target Company on a stand-alone basis (i.e. it does not factor in any benefits that the Company may derive as a result of the Proposed Acquisition). The stand-alone valuations performed separately by American Appraisal and Grant Sherman indicate that the equity value of the Target Company is approximately RMB5.4 billion (being approximately S$1.1 billion) and RMB5.6 billion (being approximately S$1.2 billion) respectively. Please refer to the Independent Valuation Reports annexed in Appendix A titled "Summary of Independent Valuation Report by American Appraisal China Limited" and Appendix B titled "Independent Valuation Report by Grant Sherman Appraisal Limited" to this Circular. **Shareholders are advised to read the Independent Valuation Reports carefully.**

2.3 Consideration

The consideration for the purchase of the Sale Shares ("**Consideration**") shall be RMB5,811,267,353 (being equivalent to S$1,212,230,370, based on an agreed foreign exchange rate of RMB1 : S$0.2086 as at 31 December 2013), being the sum agreed between the Company and the Vendor.

The Consideration shall be satisfied by the allotment and issue by the Company to the Vendor of such number of new Shares as determined in accordance with the following formula:

CS = **C** ÷ (**I** x **A**)

where:

CS is the aggregate number of Consideration Shares (fractions to be disregarded);

C is the Consideration;

A is a fraction, the numerator of which is 4,863,334,075 (being the total number of Shares as at 31 December 2013) and the denominator of which is 5,472,254,430 (being the total number of Shares on the date of the Acquisition Agreement on a fully diluted basis taking into account the share consolidation of the Company after 31 December 2013); and

I S$0.703

accordingly, CS = 1,940,269,305.

Shareholders should note that "I" as referred to in the formula above refers to the nominal issue price (the "**Nominal Issue Price**") of S$0.703 as agreed in the Framework Agreement, after adjusting for the Company's 10-to-1 Share consolidation on 27 May 2014. The Nominal Issue Price was determined with reference to the volume weighted average price of the Shares traded on the SGX-ST for the preceding 90 trading days ending on the date of the Framework Agreement ("**90-Day VWAP**"), and is not the same as the Effective Issue Price which was determined using the formula above pursuant to the Acquisition Agreement. The Nominal Issue Price is not at a discount or premium to the 90-Day VWAP, and the Effective Issue Price of S$0.625 (rounded to 3 decimal places) can be calculated by dividing the Consideration by the aggregate number of Consideration Shares.

Shareholders should note that there may have been significant speculative trading activities in the Shares which would otherwise have distorted the Share price and trading volume during the timeframe commencing from 30 December 2013, the date the Framework Agreement was announced (the "**Framework Agreement Announcement Date**"), leading up to 2 June 2014, the date the Proposed Acquisition was announced (the "**Proposed Acquisition Announcement Date**"). The trading activity during this time may not be an accurate reflection of the normal historical performance.

As such, a more accurate reference point to determine the premium/ discount implied by the Effective Issue Price should be the Framework Agreement Announcement Date given that the Effective Issue Price was derived from multiplying the Nominal Issue Price with the anti-dilution factor "A" as set out in the formula above, and that was the first instance where preliminary details of the Proposed Acquisition were announced. This is also consistent with the approach by the IFA as set out in their letter in Appendix D to this Circular.

Shareholders should also note the following information in respect of the Effective Issue Price vis-à-vis the market prices of the Shares prior to the Framework Agreement Announcement Date:

- Over the last one (1) year prior and up to the Framework Agreement Announcement Date, the Shares have consistently traded at closing prices below the Effective Issue Price of S$0.625 per share, save for 71 market days between 17 September 2013 to 30 December 2013 out of a total of 249 market days leading up to the Framework Agreement Announcement Date.

- The Effective Issue Price of S$0.625 per Share is within the range of the daily closing price of the Shares over the 1-year period up to the last trading day prior to the Framework Agreement Announcement Date, which is between a low of S$0.380 per Share and a high of S$0.850 per Share.

Please refer to the IFA Letter annexed in Appendix D of the Circular for more details.

The Consideration Shares, when allotted and issued to the Vendor, will be free from encumbrances and will rank *pari passu* in all respects with the existing Shares as at the date of issuance of the Consideration Shares.

The Consideration was agreed on a willing-buyer and willing-seller basis after arms' length negotiations. In arriving at the Consideration, the Company has considered, *inter alia*, (i) the respective and combined market positions of the Company and the Target Company; (ii) the quality of the respective assets and business conditions of the Company and the Target Company; (iii) the respective financial positions of the Company and the Target Company; (iv) the future benefits and synergies expected to be created as a result of the Proposed Acquisition as set out in Section 2.1 (Rationale for the Proposed Acquisition) above; and (v) current prevailing industry and market conditions, and also with reference to the valuations of the Target Company by the Independent Valuers.

The Consideration Shares will represent approximately 78% of the Enlarged Share Capital immediately after Completion.

2.4 Conditions Precedent

Completion of the Proposed Acquisition under the Acquisition Agreement shall, unless waived, be conditional upon, *inter alia* ("**Conditions Precedent**"):

(a) **Company Shareholders' Approval.** The approval of the Shareholders at the SGM having been obtained for:

(i) the Proposed Acquisition;

(ii) the allotment and issue of the Consideration Shares by the Company to the Vendor;

(iii) the change of name of the Company to "China Everbright Water Limited (中国光大水务有限公司)" subject to and with effect from Completion;

(iv) the appointment of not less than four (4) Directors nominated by the Vendor on the Board with effect from Completion; and

(v) the Proposed Whitewash Resolution.

(b) **Practice Note 15 Submission.** In the event Practice Note 15 of the listing rules of HKSE applies to the Proposed Acquisition (as determined by HKSE), HKSE's approval on the Practice Note 15 submission to be made by CEIL in connection with the Proposed Acquisition and HKSE's waiver of the requirement to provide assured entitlement under Practice Note 15 (or confirmation of its acceptance of other alternative proposal acceptable to CEIL) having been obtained.

(c) **SIC Waiver.** The grant by the SIC of a waiver (the "**SIC Waiver**") to the Vendor and the Concert Parties Group, of their obligation to make a mandatory offer under Rule 14 of the Code for the Shares not held by the Vendor and its concert parties, and from having to comply with the requirements of Rule 14 of the Code upon Completion and the allotment and issue of the Consideration Shares to the Vendor and if such waiver is subject to any condition or restriction imposed by the SIC, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.

(d) **SGX-ST Approval for the Proposed Acquisition.** The approval of the SGX-ST for the Proposed Acquisition having been obtained where necessary, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.

(e) **SGX-ST Approval for Listing and Quotation.** The approval of the SGX-ST and the issuance of a listing and quotation notice from the SGX-ST for the admission of the Consideration Shares to the Official List of the SGX-ST, and the dealing and quotation of such shares on the Main Board of the SGX-ST upon the allotment and issue of such shares, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.

(f) **Governmental Approvals for the Acquisition.** The licences, authorisations, orders, grants, confirmations, permissions, registrations, waivers, exemptions and other approvals necessary or desirable for or in respect of the Proposed Acquisition having been obtained by the Target Group Companies and the HanKore Group Companies from the appropriate governments, governmental, supranational or trade agencies, courts or other regulatory bodies on terms reasonably satisfactory to the Company and the Vendor (as the case may be), and if such approval is subject to any condition or restriction, such condition and/or restriction being reasonably acceptable to the Company and the Vendor (as the case may be).

(g) **All Other Consents and Approvals.** The HanKore Group Companies and the Target Group Companies having obtained all other necessary consents, approvals and written waivers (including for change of control) from all relevant third parties for the Proposed Acquisition (including in relation to the Company's cross-currency swap contract with DBS Bank Ltd.).

(h) **CEIL Shareholders' Approval.** The approval of the shareholders of CEIL at a special general meeting for the Proposed Acquisition (if required).

(i) **No Breach.** The Proposed Acquisition not being prohibited by and will not result in a breach of, any statute, order, rule, regulation, directive, guideline or request promulgated by, or any judgement or decree of, any legislative, executive, judicial or regulatory body or authority in Singapore, Hong Kong, the PRC or any other jurisdiction affecting any HanKore Group Company, Target Group Company or the Vendor.

(j) **No Adverse Change.** There being no changes to the business, financial conditions or operations of any HanKore Group Company or Target Group Company (as the case may be) since the date of the Acquisition Agreement that would in the reasonable opinion of the Vendor or the Company (as the case may be) be likely to have an adverse effect on the turnover, profitability, financial position or prospects of HanKore Group Company or Target Group Company (as the case may be).

(k) **Financial Statements.** The Vendor being satisfied with the presentation of, and the financial condition of HanKore Group as represented by the consolidated balance sheet and consolidated profit and loss account of HanKore Group for the period ended 30 June 2014 to be prepared for purposes of inclusion in the shareholder circular in respect of the Proposed Acquisition and to be delivered to the Vendor prior to Completion and the audited version of the restated consolidated balance sheet, restated consolidated profit and loss account and restated consolidated cashflow statement of HanKore Group for the period ended 31 December 2013.

(l) **Discharge of Encumbrance.** The charge over the Sale Shares in favour of the International Finance Corporation being discharged in full.

(m) **Consent from Bondholders.** The approval of the bondholders under the bonds issued by the Company to the Proposed Acquisition on terms satisfactory to the Vendor.

(n) **No outstanding rights.** There being no outstanding options, warrants (save for those in issue as of the date of the Acquisition Agreement[(1)]), rights (including conversion or pre-emptive rights) or agreements for the subscription or purchase of any equity security of any HanKore Group Company or any securities convertible into or ultimately exchangeable or exercisable for any equity securities of any HanKore Group Company.

(o) **Warranties.** The representations, warranties and undertakings made by the Vendor and the Company respectively under the Acquisition Agreement remaining true, accurate and correct in all respects.

(p) **Restructuring.** China Everbright Environmental Protection Holdings Limited ("**CEEPH**") shall transfer the Sale Shares to the Vendor and the register of members of the Target Company has been updated on or before 30 June 2014 (or such other date as may be mutually agreed by the Company and the Vendor in writing) to reflect the transfer of the Sale Shares to the Vendor.

As at the Latest Practicable Date, the Vendor has confirmed that CEIL has obtained HKSE's approval on its Practice Note 15 submission in connection with the Proposed Acquisition and HKSE's waiver of the requirement to provide assured entitlement under Practice Note 15. In addition, the approval of the shareholders of CEIL at a special general meeting for the Proposed Acquisition is not required. Further, DBS Bank Ltd. has by way of a letter of acknowledgment dated 18 August 2014, *inter alia*, granted its consent and approval for the Proposed Acquisition and waivers of terms which would otherwise constitute a default (as a consequence of, and only to the extent in connection with, the Proposed Acquisition) in relation to the Company's cross-currency swap contract.

Save as disclosed in this Section and the Conditions Precedent described in (c), (k), (l) and (p) which have been fulfilled, all the other Conditions Precedent are pending

(1) As at the date of the Acquisition Agreement, 263,462 warrants were outstanding. Please refer to Section 6.2 titled "Share Capital" of the HanKore Letter.

fulfilment as at the Latest Practicable Date. An announcement will be made by the Company to notify Shareholders of the fulfilment of the Conditions Precedent in due course. The approval-in-principle for the Proposed Acquisition was obtained from the SGX-ST on 10 November 2014.

2.5 Information on the Vendor

The Vendor is an investment holding company incorporated in the British Virgin Islands and wholly-owned indirectly by CEIL. CEIL is an investment holding company incorporated in Hong Kong and listed on the Main Board of the HKSE (SEHK: 257). CEIL and its subsidiaries are primarily engaged in the investment, construction, operation and management of environment protection projects in the PRC. Please refer to the Target Letter for more details on the Vendor.

2.6 Information on the Target Group

The Target Company is a company incorporated in the British Virgin Islands and together with its subsidiaries are principally involved in the environmental water business, which includes wastewater treatment, reusable water projects and wastewater heat pump projects, focused in the regions of Taihu Lake and Bohai Bay area of the PRC.

The Target Group operates a portfolio of large scale and diversified wastewater treatment projects. As at the Latest Practicable Date, the Target Group had 21 wastewater treatment projects, four reusable water projects, two wastewater source heat pump projects and two Build-Transfer ("**BT**") water projects. The projects are designed with an annual wastewater treatment capacity of approximately 667,950,000 m^3 and provide annual reusable water of 22,484,000 m^3, and its wastewater source heat pump projects cover a service area of 305,000 m^2. 14 of the wastewater treatment projects achieved Grade 1 Class A water discharge standard, the highest standard imposed in the PRC, enabling the Target Group to command higher wastewater treatment fees compared to projects with lower discharge grades. The Target Group also consists of 2 completed water BT projects and has successfully locked in the future profits arising from these 2 projects.

The wastewater treatment projects operated by the Target Group are concentrated in the provinces of Shandong and Jiangsu which offer strong local economies. The wastewater treatment fees increased steadily across the wastewater treatment projects over the years. Furthermore, strong demand has resulted in wastewater treatment volume growth outstripping the initial forecasts. The utilisation rate of the Target Group remained high in 2013, and the Target Group is making plans to expand several plants which are nearing or exceeding the design capacities.

The Target Group's revenue and net profit attributable to equity shareholders grew at a CAGR of 22.9% and 14.6% respectively for the past 2 years, and achieved a revenue and net profit of HK$1,291 million and HK$266 million in FY2013 respectively.

Further information on the Target Group is set out in the Target Letter.

2.7 The Proposed Acquisition as a "Very Substantial Acquisition" and "Reverse Takeover" transaction

For the purposes of Chapter 10 of the Listing Manual, the relative figures of the Proposed Acquisition computed on the bases set out in Rule 1006(a) to (e) of the Listing Manual are as follows:

Listing Rule	Bases	Target Group (million)	HanKore Group (million)	Relative Figures
1006(a)	The net asset value of the assets to be disposed of, compared with the HanKore Group's net asset value	Not applicable to an acquisition of assets.		
1006(b)	The net profits attributable to the Sale Shares, compared with the HanKore Group's net profits	HK$402.0(1)	HK$60.3(2)	666.7%
1006(c)	The Consideration, compared with the Company's market capitalisation	S$1,212.2(3)	S$626.2(4)	193.6%
1006(d)	The number of Consideration Shares to be issued by the Company as consideration for the Proposed Acquisition, compared with the number of Shares previously in issue	1,940.3(5)	509.1(6)	381.1%
1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the HanKore Group's proved and probable reserves	This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not applicable to an acquisition of assets.		

Notes:

(1) Based on the audited net profits before income tax, minority interests and extraordinary items of the Target Group for the financial year ended 31 December 2013.

(2) Based on an assumed foreign exchange rate of RMB1 : HK$1.2533 and the audited net profit before income tax, minority interests and extraordinary items of the HanKore Group for the year ended 31 December 2013.

(3) Based on an agreed foreign exchange rate of S$1 : RMB4.7939.

(4) HanKore Group's market capitalisation is based on the volume weighted average price per Share of S$1.230 (rounded to 3 decimal places) transacted on 30 May 2014, being the market day preceding the date of the Acquisition Agreement, and a total number of 509,102,647 Shares being in issue as at the date of the Announcement (Source: Bloomberg L.P.).

(5) Based on the formula set out in Section 2.3.

(6) Based on the total number of 509,102,647 Shares in issue as at the date of the Announcement.

Immediately upon Completion, the Vendor will hold approximately 78% of the Enlarged Share Capital, thus resulting in a change in control of the Company. In addition, the relative figures under Rules 1006(b), 1006(c) and (d) of the Listing Manual exceed 100.0%.

Accordingly, the Proposed Acquisition is considered a "Very Substantial Acquisition" and "Reverse Takeover" under Rule 1015 of the Listing Manual.

2.8 Undertaking Letters

Pursuant to Clause 6 of the Framework Agreement, each of Giant Delight Holdings Limited and Ancient Jade International Holdings Limited, holding approximately 84,189,596 and 22,341,333 shares in the Company respectively, has on 6 January 2014 executed an undertaking letter in favour of the Target Company undertaking not to dispose of or otherwise deal with all or any of its shares in the Company on or before the Completion and the allotment and issue of the Consideration Shares; provided that it may acquire any shares in the Company at any time whether in the open market or by other means.

2.9 Submission to the SGX-ST

Receipt of in-principle approval from the SGX-ST

On 10 November 2014, the SGX-ST granted in-principle approval for the listing and quotation of the Consideration Shares. The in-principle approval granted is subject to, amongst others, the following conditions:-

(a) compliance with the SGX-ST's listing requirements;

(b) Shareholders' approval being obtained for the Proposed Acquisition and for all other necessary and relevant proposals to be put forth at the forthcoming SGM;

(c) compliance with the shareholding spread requirements and distribution guidelines under Rules 210(1)(a) and 1015(3)(c) of the Listing Manual(in determining the minimum spread required, the market capitalization will be computed by multiplying the number of issued shares comprised in the enlarged share capital with the compliance placement price, if applicable);

(d) compliance with Rules 113(2) and 210(5)(a) of the Listing Manual which require that:

(i) for two years after listing or such other time frame imposed by the SGX-ST, the issuer must prominently include a statement that the reverse takeover of its shares was sponsored by DBS in all announcements made by it (on SGXNET or otherwise) and in all information documents issued by it to shareholders; and

(ii) as a pre-quotation disclosure requirement, an issuer must release a statement via SGXNET or in the prospectus, offering memorandum or introductory document identifying for each director, whether the person has prior experience (and what) or, if the director has no prior experience as a director of a listed company, whether the person has undertaken training in the roles and responsibilities of a director of a listed company;

(e) submission of the following documents:

(i) a written undertaking from the Enlarged Group that reviews by the Board of Directors or the relevant committee of the Enlarged Group's key financial, operational and compliance risk areas and the outcome of these reviews must be disclosed in the Annual Report or where the findings are material, immediately announced via SGXNET;

(ii) a written undertaking by the Enlarged Group of the following:-

a. the commissioning of an annual internal controls audit by a suitable and qualified professional accounting firm until such time the Audit Committee is satisfied that the Enlarged Group's internal controls are robust and effective enough to mitigate the Enlarged Group's internal control weaknesses. Prior to the decommissioning of this annual audit, the Board is required to report to the SGX-ST on how the key internal control weaknesses have been rectified, and the basis for the decision to decommission the annual internal controls audit;

b. thereafter, such audits may be initiated by the Audit Committee as and when it deems fit to satisfy itself that the Enlarged Group's internal controls remain robust and effective;

c. upon completion of the internal controls audit, appropriate disclosure must be made via SGXNET on any material, price-sensitive internal controls weaknesses and any follow-up to be taken by the Board; and

(iii) a written confirmation from the Enlarged Group that Rules 735 and 736 of the Listing Manual have been complied with;

(iv) a written undertaking from the Enlarged Group that it will comply with Rules 704(30) and 1207(20) of the Listing Manual in relation to the use of the proceeds from the compliance placement (if any) and where proceeds are to be used for working capital purposes, the Enlarged Group will disclose a breakdown with specific details on the use of proceeds for working capital in the Enlarged Group's announcements on use of proceeds and in the annual report;

(v) a written undertaking from each of the Enlarged Group's directors in the form set out in Appendix A and an undertaking from the Enlarged Group to procure the same written undertaking from any new director appointed to the Enlarged Group's board after the Enlarged Group's listing;

(vi) a written undertaking from the Enlarged Group that:

a. it will seek board approval on the policy for entering into any foreign exchange hedging transactions;

b. it will put in place adequate procedures which must be reviewed and approved by the Audit Committee; and

c. the Audit Committee will monitor the implementation of the policy, including reviewing the instruments, processes and practices in accordance with the policy approved by the Board;

(vii) a written confirmation from DBS that the signed moratorium agreements with the relevant parties pursuant to Rule 227 of the Listing Manual are in accordance with the requirements of Rules 228 and 229 of the Listing Manual;

(viii) a written confirmation from DBS that Rules 232, 233, 234 and 240 of the Listing Manual have been complied with, where applicable;

(ix) a written confirmation from DBS that Rules 210(4)(a) and 210(4)(b) of the Listing Manual have been complied with;

(x) documents stipulated in Rule 248 (before the date of issue of the circular), Rule 249 (by the date of allotment of the shares) and Rule 250 (market day before the trading suspension is lifted) of the Listing Manual, where applicable;

(xi) a written confirmation by the Company, to be submitted before the issue of the shareholders' circular that the Enlarged Group it has obtained all material licences, permits, approvals and certificates for its business operations and has complied with all relevant laws and regulations that would materially affect its business operations prior to issue of the Shareholders' Circular, to the extent qualified by such licences, permits and certificates to be disclosed in the shareholders' circular; and

(xii) a duly signed undertaking in the format set out in Appendix 2.3.1 of the Listing Manual.

It should be noted that the in-principle approval granted by the SGX-ST is in no way reflective of the merits of any of the Proposed Transactions, the HanKore Group, the Target Group, the Enlarged Group and the Consideration Shares.

3. THE PROPOSED WHITEWASH RESOLUTION

3.1 General offer requirement under the Code

Pursuant to Rule 14.1 of the Code, where (a) any person acquires (whether by a series of transactions over a period of time or not) Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30.0% or more of the voting rights of the Company; or (b) any person who, together with persons acting in concert with him, holds not less than 30.0% but not more than 50.0% of the voting rights of the Company, or any person acting in concert with him, acquires in any six (6) months additional Shares carrying more than 1.0% of the voting rights of the Company, such person and his concert parties will be required to make a mandatory general offer for all the Shares not held by them.

As at the Latest Practicable Date, the Concert Parties Group does not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of any Shares in the Company.

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor will hold 1,940,269,305 Shares, representing approximately 78% of the Enlarged Share Capital. In such event, the Vendor will be required under the Code to make a mandatory general offer for the Shares not already held by it pursuant to Rule 14.1 of the Code unless such obligation is waived by the SIC and the Proposed Whitewash Resolution is approved by the Independent Shareholders at the SGM.

Completion shall be conditional upon, *inter alia*:

(i) the grant by the SIC of the SIC Waiver; and

(ii) the approval of the majority of the Independent Shareholders being obtained at the SGM for the Proposed Whitewash Resolution.

3.2 SIC Waiver

The SIC had, on 28 May 2014, waived the requirement for the Vendor to make a general offer for the Company under Rule 14.1 of the Code in the event the Vendor and the parties acting in concert with the Vendor (collectively, the "**Concert Parties Group**") increase their shareholdings in the Company to 79.21% based on its enlarged issued share capital as a result of the Vendor acquiring the Consideration Shares under the Proposed Acquisition, subject to the following conditions ("**SIC Conditions**"):

(a) a majority of holders of voting rights of the Company present and voting approve at a general meeting held before Completion, the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Concert Parties Group;

(b) the Proposed Whitewash Resolution is separate from other resolutions;

(c) the Concert Parties Group as well as parties not independent thereof, abstain from voting on the Proposed Whitewash Resolution;

(d) the Concert Parties Group did not acquire or are not to acquire any shares or instruments convertible into and options in respect of the Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of new Shares which have been disclosed in the Circular):

  (i) during the period between the announcement of the Proposed Acquisition and the date Shareholders' approval is obtained for the Proposed Whitewash Resolution; and

  (ii) in the six (6) months prior to the announcement of the Proposed Acquisition, but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Proposed Acquisition;

(e) the Company appoints an independent financial adviser to advise the Independent Directors on the Proposed Whitewash Resolution;

(f) the Company sets out clearly in the Circular:

  (i) details of the Proposed Acquisition, including the issue of the Consideration Shares to the Vendor;

  (ii) the possible dilution effect to existing holders of voting rights of the Vendor's acquisition of the Consideration Shares under the Proposed Acquisition;

  (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Parties Group as at the Latest Practicable Date;

  (iv) the number and percentage of voting rights to be issued to the Vendor as a result of their acquisition of the Consideration Shares under the Proposed Acquisition;

  (v) that the Proposed Acquisition will result in the Concert Parties Group holding Shares carrying over 49.0% of the voting rights of the Company based on its enlarged issued capital, and the fact that the Concert Parties Group will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer; and

  (vi) that Shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to a general offer from the Vendor at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer;

(g) the Circular states that the waiver granted by the SIC to the Vendor from the requirement to make a general offer under Rule 14 of the Code is subject to the conditions stated at Section 3.2(a) to (f) above;

(h) the Company obtains the SIC's approval in advance for those parts of the Circular that refer to the Proposed Whitewash Resolution; and

(i) to rely on the Proposed Whitewash Resolution, the Proposed Acquisition must be completed within three (3) months of the date of approval of the Proposed Whitewash Resolution.

3.3 The Proposed Whitewash Resolution

Independent Shareholders are requested to vote on a poll on the Proposed Whitewash Resolution set out as an ordinary resolution in the Notice of SGM.

Shareholders should note that:

(a) approval of the Proposed Whitewash Resolution is a condition precedent to Completion. If Independent Shareholders do not vote in favour of the Proposed Whitewash Resolution, the Proposed Acquisition will not take place;

(b) the Proposed Acquisition could result in the Concert Parties Group holding Shares carrying over 49.0% of the voting rights of the Company, and the fact that the Vendor will as a result be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer;

(c) by voting in favour of the Proposed Whitewash Resolution, Shareholders are waiving their rights to a general offer from the Concert Parties Group at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer; and

(d) by voting for the Proposed Whitewash Resolution, the Shareholders could be forgoing the opportunity to receive a general offer from another person who may be discouraged from making a general offer in view of the potential dilution effect of the issue of the Consideration Shares.

3.4 Advice of the Independent Financial Adviser

PrimePartners Corporate Finance Pte. Ltd. has been appointed as the independent financial adviser to the Independent Directors in relation to the Proposed Acquisition and the Proposed Whitewash Resolution.

Having regard to the considerations set out in the IFA letter and the information available to the IFA as at the Latest Practicable Date, the IFA is of the opinion that the Proposed Acquisition and the Proposed Whitewash Resolution is fair and reasonable, and not prejudicial to the interests of the Independent Shareholders.

Accordingly, PrimePartners Corporate Finance Pte. Ltd. has advised the Independent Directors for the purposes of the Proposed Whitewash Resolution to recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.

The letter from the IFA to the Independent Directors containing their advice in respect of the Proposed Acquisition and the Proposed Whitewash Resolution is set out in Appendix D titled "IFA Letter" to this Circular. **Shareholders are advised to read the copy of the IFA Letter in its entirety.**

4. THE PROPOSED CHANGE OF NAME AND PROPOSED VARIATION OF THE GENERAL SHARE ISSUE MANDATE

4.1 Proposed Change of Name

In view of the Proposed Acquisition, the Company is seeking the approval of the Shareholders to change the English name of the Company from "HanKore Environment Tech Group Limited" to "China Everbright Water Limited" (the "**New English Name**") and to adopt a new Chinese name "中国光大水务有限公司" (the "**New Chinese Name**") as the new secondary name of the Company in place of the existing secondary name "汉科环境科技集团" to better reflect the new activities of the Enlarged Group. The change of name of the Company will only take effect after Completion from the date of entry of the New English Name and New Chinese Name of the Company on the register maintained by the Registrar of Companies in Bermuda.

In line with the proposed change of name, the Company also intends to adopt a new logo as shown below:

The Company will issue an announcement to notify Shareholders of the coming into effect of the Company's new name. Shareholders should note that the change of the Company's name does not affect the legal status of the Company. No further action would be required on the part of Shareholders.

4.2 Proposed Variation of the General Share Issue Mandate

The Company had, at its annual general meeting held on 31 October 2014, passed a resolution pursuant to the Company's Bye-laws and Rule 806(1) of the Listing Manual granting the Directors a general mandate (the "**Existing General Share Issue Mandate**") to (i) allot and issue Shares whether by way of rights, bonus or otherwise; (ii) make or grant offers, agreements or options that might or would require Shares to be issued or other transferable rights to subscribe for or purchase Shares (collectively, "**Instruments**"), including but not limited to the creation and issue of warrants, debentures or other instruments convertible into Shares; and (iii) issue additional instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues, at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit.

In light of the anticipated changes to the capital structure of the Company brought about by, *inter alia*, the Proposed Acquisition, it is proposed that upon Completion, the Existing General Share Issue Mandate be varied and an amended general share issue mandate (the "**Amended General Share Issue Mandate**") be adopted pursuant to the Company's Bye-laws and Rule 806(1) of the Listing Manual.

The Amended General Share Issue Mandate, if approved, will authorise the Enlarged Group Directors to issue new Shares and convertible securities in the capital of the Company (whether by way of rights issue, bonus issue or otherwise), subject to the following limitations, namely, that the aggregate number of Shares and convertible securities that may be issued must not be more than 50.0% of the Post-Completion Share Capital (as defined below), excluding treasury shares of the Company, of which the aggregate number of Shares and convertible securities issued other than on a pro-rata basis to Shareholders must not be more than 20.0% of the Post-Completion Share Capital, excluding treasury shares of the Company.

For the purpose of determining the aggregate number of Shares and convertible securities that may be issued, the percentage of issued share capital shall be based on the Company's issued share capital as at the time of passing of the resolution approving the Amended General Share Issue Mandate, after adjusting for:

(i) the issuance of 1,940,269,305 Consideration Shares to the Vendor pursuant to the Proposed Acquisition;

(ii) the issuance of new shares arising from the conversion or exercise of any convertible securities;

(iii) the issuance of new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time the resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual; and/or

(iv) any subsequent bonus issue, consolidation or subdivision of the Company's Shares,

(the "**Post-Completion Share Capital**").

The Amended General Share Issue Mandate, if approved, will take effect from Completion, and continue in force until the conclusion of the Company's next annual general meeting or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier, unless revoked or varied by the Company in a general meeting.

5. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Please refer to Appendix C titled "Financial Effects of the Proposed Acquisition" to this Circular for certain financial effects of the Proposed Acquisition.

6. THE ENLARGED GROUP

6.1 Principal Business

At the date of this Circular, the Company's principal business is that of wastewater treatment, water recycling, water supply, sludge treatment and engineering, procurement and construction ("**EPC**").

Following Completion, the principal business of the Enlarged Group will also include the Target Group's business. Please refer to the Target Letter for more information on the Target Group and its business.

6.2 Share Capital

As at the date of this Circular, there is only one class of shares in the capital of the Company, being ordinary shares.

As at the Latest Practicable Date:

(a) save as disclosed in Section 6.4 titled "Principal Shareholders" of the HanKore Letter, the Company is not directly or indirectly owned or controlled, whether severally or jointly, by any person or government;

(b) save for the Proposed Acquisition, there are no other arrangements that will result in a change in control of the Company;

(c) there has not been any public take-over offer, by a third party in respect of any of the shares of any company in the HanKore Group or by any company in the HanKore Group in respect of the shares of another corporation or the units of a business trust, which has occurred between the beginning of the most recent completed FY and the Latest Practicable Date.

As at the Latest Practicable Date, there are 263,462 outstanding warrants issued to convertible bondholders which are deposited with Euroclear Bank S.A./N.V.. Each warrant can be exercised at an exercise price of S$0.25 for one ordinary share at par value of HK$1.00 each anytime. The exercise period of the warrants is from 26 April 2010 to 26 April 2015.

Save as disclosed in this Section 6.2 titled "Share Capital" of the HanKore Letter, there were no changes in the issued and paid-up share capital of the Company or any of the HanKore Group within the three years preceding the Latest Practicable Date:

Date	Number of Shares issued	Purpose of change in capital	Consideration per Share	Resultant issued/ paid-up capital
The Company				
9 December 2011	4,341,934	Exercise of 4,341,934 convertible bonds warrants into 4,341,934 new shares of the Company at the exercise price of S$0.025 for each new share	S$0.025	HK$414,552,457.70
27 December 2011	16,300,370	Exercise of 16,300,370 convertible bonds warrants into 16,300,370 new shares of the Company at the exercise price of S$0.025 for each new share	S$0.025	HK$416,182,494.70
18 February 2013	5,906,070	Exercise of 5,906,070 convertible bonds warrants into 5,906,070 new shares of the Company at the exercise price of S$0.025 for each new share	S$0.025	HK$416,773,101.70

Date	Number of Shares issued	Purpose of change in capital	Consideration per Share	Resultant issued/ paid-up capital
25 April 2013	354,460	Issue of 354,460 new shares of the Company at the exercise price of S$0.025 for each new share upon the exercise of 354,460 convertible bond warrants	S$0.025	HK$416,808,547.70
19 June 2013	360,000,000	Allotment and issuance of Tranche 1 Consideration Shares pursuant to the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Engineering Co., Ltd.	S$0.05	HK$452,808,547.70
6 August 2013	293,617,000	Placement of 293,617,000 new ordinary shares in the capital of the Company at the issue price of S$0.05 per placement share, for the Company's business investments and working capital purposes	S$0.05	HK$482,170,247.70

Date	Number of Shares issued	Purpose of change in capital	Consideration per Share	Resultant issued/ paid-up capital
28 October 2013	31,631,598	Issue of 31,631,598 new shares of the Company at the exercise price of S$0.04 for each new share upon the exercise of 31,631,598 warrants	S$0.04	HK$485,333,407.50
7 November 2013	8,000,000	Issue of 8,000,000 new shares of the Company at the exercise price of S$0.04 for each new share upon the exercise of 8,000,000 warrants	S$0.04	HK$486,133,407.50
6 December 2013	2,000,000	Issue of 2,000,000 new shares of the Company at the exercise price of S$0.04 for each new share upon the exercise of 2,000,000 warrants	S$0.04	HK$486,333,407.50
14 March 2014	180,000,000	Allotment and issuance of Tranche 2 Consideration Shares pursuant to the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Engineering Co., Ltd.	S$0.05	HK$504,333,407.50

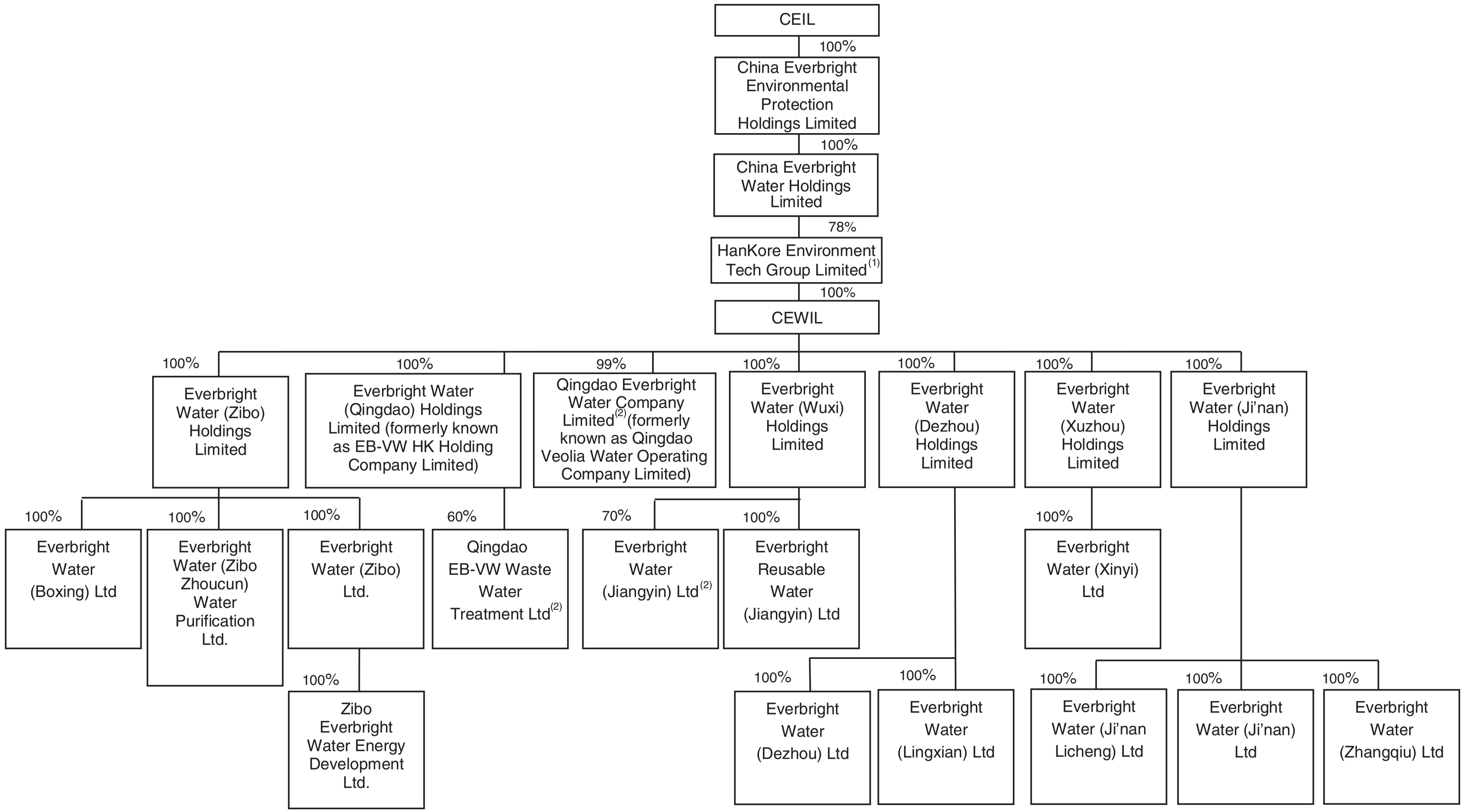
Date	Number of Shares issued	Purpose of change in capital	Consideration per Share	Resultant issued/ paid-up capital
24 March 2014	47,692,402	Issue of 47,692,402 new shares of the Company at the exercise price of S$0.04 for each new share upon the exercise of 47,692,402 warrants	S$0.04	HK$509,102,647.70
27 May 2014	—	Share consolidation of every ten existing ordinary shares of par value of HK$0.10 each in the capital of the Company into one ordinary share of the Company of par value of HK$1.00 each	—	HK$509,102,1770
3 June 2014	1,380,717	Issue of 1,380,717 new shares of the Company at the exercise price of S$0.25 for each new share upon the exercise of 1,380,717 convertible bonds warrants	S$0.25	HK$510,482,894
HanKore International Pte. Ltd.				
1 October 2013	4,900,000	Increase in share capital	S$1.00	S$5,000,000
Beijing Hankelin Environmental Technology Co., Ltd.				
28 March 2012	— [(1)]	Increase in share capital	—[(1)]	RMB50,000,000

Date	Number of Shares issued	Purpose of change in capital	Consideration per Share	Resultant issued/ paid-up capital
Sanmenxia HanKore Co., Ltd.				
22 November 2011	— [1]	Increase in share capital	—[1]	RMB22,000,000
Yangzhou HanKore Water Development Co., Ltd.				
3 September 2013	— [1]	Increase in share capital	—[1]	US$5,000,000
Xianyang Bai Sheng Shui Purifying Co., Ltd.				
24 September 2013	— [1]	Increase in share capital	—[1]	RMB94,000,000
Nanjing Golden Idea Water Development Co., Ltd.				
14 November 2013	— [1]	Increase in share capital	—[1]	US$14,150,000

Note:

(1) There were no shares issued.

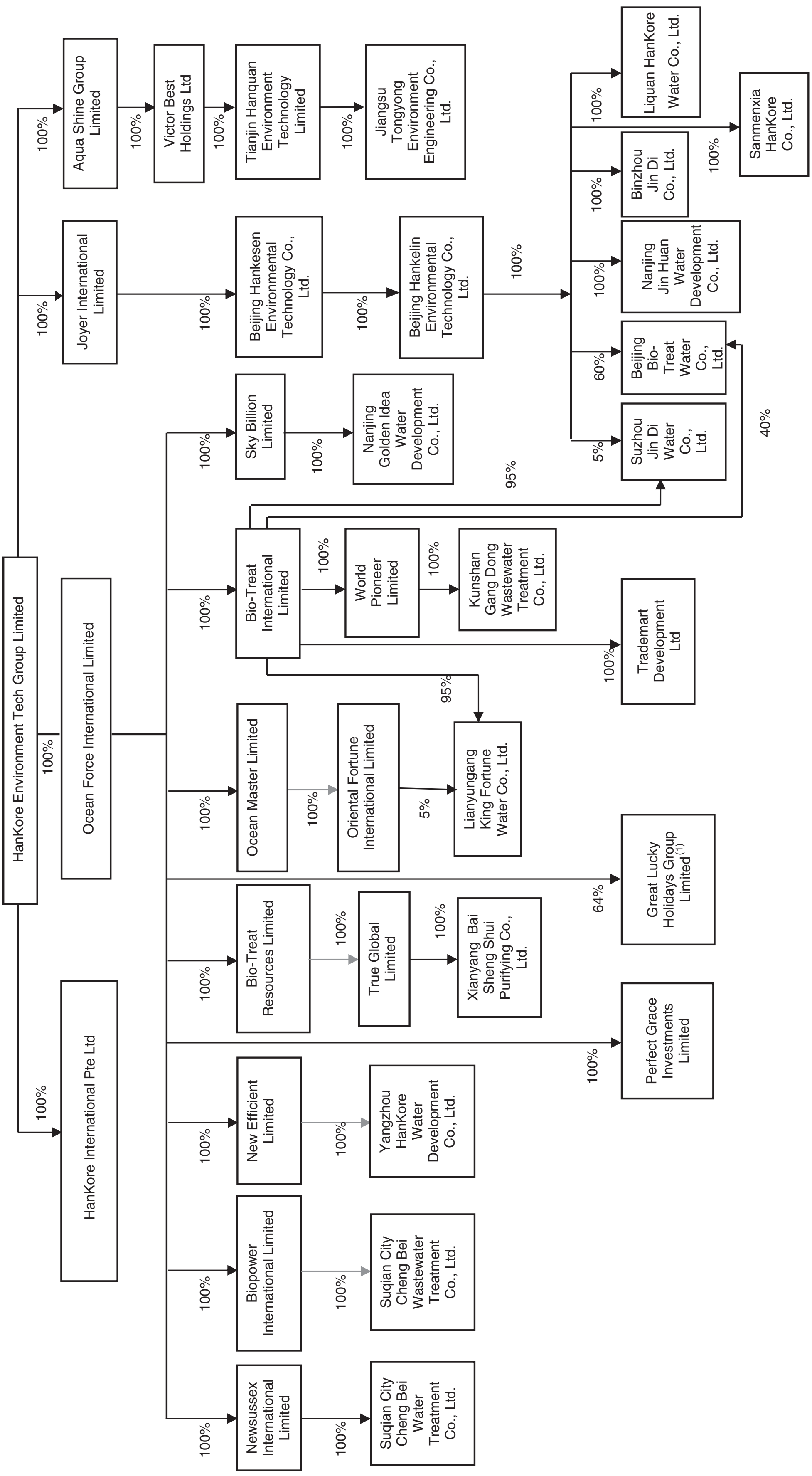
6.3 Group Structure upon Completion



Notes:

(1) Please refer to page 46 of the HanKore Letter for the group structure of the HanKore Group. Please refer to Section 6.4 titled "Principal Shareholders" of the HanKore Letter for the entities which hold the remaining issued share capital of the Company.

(2) Please refer to notes (1), (2) and (3) on page 48 of the HanKore Letter for the entities which hold the remaining issued share capital of Qingdao Everbright Water Company Limited (formerly known as Qingdao Veolia Water Operating Company Limited), Qingdao EB-VW Waste Water Treatment Ltd and Everbright Water (Jiangyin) Ltd.



Note:

(1) First Deals Trading Ltd., a third party unrelated to the HanKore Group, holds the remaining 36.0% of the issued share capital of Great Lucky Holdings Limited.

The details of each of the subsidiaries of the Enlarged Group assuming Completion as at the Latest Practicable Date are as follows:

Target Group

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Company on Completion (%)
Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited)	15 October 2003/ Hong Kong	Investment holding	100.0
Everbright Water (Zibo) Holdings Limited	11 June 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Dezhou) Holdings Limited	8 November 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Ji'nan) Holdings Limited	11 June 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Wuxi) Holdings Limited	3 October 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Xuzhou) Holdings Limited	14 January 2010/ Hong Kong	Investment holding	100.0
Qingdao EB-VW Waste Water Treatment Ltd	13 August 2004/ PRC	Wastewater treatment	60.0[(1)]
Qingdao Everbright Water Company Limited (formerly known as Qingdao Veolia Water Operating Company Limited)	6 August 2004/ PRC	Wastewater treatment	99.0[(2)]
Everbright Water (Zibo) Ltd.	15 November 2005/ PRC	Wastewater treatment	100.0
Everbright Water (Ji'nan) Ltd.	10 October 2006/ PRC	Wastewater treatment	100.0
Everbright Water (Boxing) Ltd.	21 February 2008/ PRC	Wastewater treatment	100.0

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Company on Completion (%)
Everbright Water (Zibo Zhoucun) Water Purification Ltd.	5 December 2007/ PRC	Wastewater treatment	100.0
Everbright Water (Jiangyin) Ltd.	26 December 2007/ PRC	Wastewater treatment	70.0(3)
Everbright Water (Ji'nan Licheng) Ltd	26 November 2008/ PRC	Wastewater treatment and reusable water	100.0
Zibo Everbright Water Energy Development Ltd.	8 June 2000/ PRC	Water heat pump project	100.0
Everbright Water (Lingxian) Ltd	10 December 2009/ PRC	Wastewater treatment	100.0
Everbright Water (Xinyi) Ltd	4 March 2010/ PRC	Wastewater treatment and surface water BT projects	100.0
Everbright Reusable Water (Jiangyin) Ltd	18 May 2011/ PRC	Reusable water	100.0
Everbright Water (Dezhou) Ltd	24 February 2012/ PRC	Wastewater treatment	100.0
Everbright Water (Zhangqiu) Ltd	4 June 2013/ PRC	Wastewater treatment	100.0

Notes:

(1) Qingdao Municipal Drainage Company, a third party unrelated to the Target Group, holds the remaining 40.0% of the issued share capital of Qingdao EB-VW Waste Water Treatment Ltd..

(2) Qingdao Municipal Drainage Company, a third party unrelated to the Target Group, holds the remaining 1.0% of the issued share capital of Qingdao Everbright Water Company Limited (formerly known as Qingdao Veolia Water Operating Company Limited).

(3) Jiangsu Jiangnan Water Co., Ltd., a third party unrelated to the Target Group, holds the remaining 30.0% of the issued share capital of Everbright Water (Jiangyin) Ltd.

HanKore Group

Name of subsidiary	**Date and place of incorporation**	**Principal activities**	**Effective equity interest held by the Company on Completion (%)**
Aqua Shine Group Limited	18 April 2011 / BVI	Investment holding	100.0
Bio-Treat International Limited	11 July 2003 / BVI	Investment holding	100.0
Bio-Treat Resources Limited	11 July 2003 / BVI	Investment holding	100.0
Biopower International Limited	15 March 2005 / BVI	Investment holding	100.0
HanKore International Pte Ltd	18 July 2011 / Singapore	Investment holding	100.0
Joyer International Ltd	7 October 2010 / BVI	Investment holding	100.0
New Efficient Limited	22 January 2004 / BVI	Investment holding	100.0
Newsussex International Limited	15 March 2005 / BVI	Investment holding	100.0
Ocean Force International Limited	11 July 2003 / BVI	Investment holding	100.0
Ocean Master International Limited	11 July 2003 / BVI	Investment holding	100.0
Sky Billion Limited	14 January 2004 / BVI	Investment holding	100.0
Trademart Developments Limited	3 December 2003 / BVI	Dormant	100.0
True Global Limited	31 March 2004 / BVI	Investment holding	100.0
Victor Best Holdings Ltd	12 June 2012 / BVI	Investment holding	100.0

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Company on Completion (%)
World Pioneer Investments Limited	11 July 2003 / BVI	Investment holding	100.0
Perfect Grace Investments Limited	6 May 2005 / Hong Kong	Dormant	100.0
Great Lucky Holdings Group Limited	10 November 2004 / Hong Kong	Dormant	64.0(1)
Oriental Fortune International Limited	7 May 2004 / Hong Kong	Investment holding	100.0
Beijing Hankelin Environmental Technology Co., Ltd.	26 October 2010 / PRC	Investment holding and provision of management service	100.0
Beijing Hankesen Environmental Technology Co., Ltd.	27 June 2011 / PRC	Provision of environmental protection technologies, research and development of environmental protection products, consultancy and development services of wastewater treatment technologies	100.0
Beijing Bio-Treat Water Co., Ltd.	15 August 2006 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Binzhou Jin Di Co., Ltd.	8 November 2007 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Company on Completion (%)
Jiangsu Tongyong Environment Engineering Co., Ltd.	11 June 2007 / PRC	Engineering, procurement and construction of equipment production, provision of equipment installation and design and construction of water treatment engineering	100.0
Nanjing Jin Huan Water Development Co., Ltd.	23 November 2006 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Suzhou Jin Di Water Co., Ltd.	3 July 2006 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Tianjin Hanquan Environment Technology Limited	7 March 2013 / PRC	Investment holding	100.0
Yangzhou HanKore Water Development Co., Ltd.	14 December 2004 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Kunshan Gang Dong Wastewater Treatment Co., Ltd.	29 March 2004 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Company on Completion (%)
Xianyang Bai Sheng Shui Purifying Co., Ltd.	19 May 2003 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Lianyungang King Fortune Water Co., Ltd.	21 June 2005 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Nanjing Golden Idea Water Development Co., Ltd.	21 March 2006 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Sanmenxia HanKore Co., Ltd.	6 January 2011 / PRC	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	100.0
Liquan HanKore Water Co., Ltd.	9 September 2011 / PRC	Dormant	100.0
Suqian City Cheng Bei Wastewater Treatment Co., Ltd.	30 May 2005 / PRC	Dormant	100.0
Suqian City Cheng Bei Water Treatment Co., Ltd.	30 May 2005 / PRC	Dormant	100.0

Note:

(1) First Deals Trading Ltd., a third party unrelated to the HanKore Group, holds the remaining 36.0% of the issued share capital of Great Lucky Holdings Group Limited.

6.4 Principal Shareholders

Details of the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Proposed Acquisition are set out in the table below:

	Before the Proposed Acquisition(1)				Immediately after the Proposed Acquisition(2)			
	Direct		Deemed		Direct		Deemed	
	Number of Shares	% of total issued Shares	Number of Shares	% of total issued Shares	Number of Shares	% of total issued Shares	Number of Shares	% of total issued Shares
Existing Directors								
Chen Dawei, David(3)	—	—	84,189,596	16.49	—	—	84,189,596	3.44
Nie Jian Sheng	—	—	—	—	—	—	—	—
Yau Wing-Yiu	—	—	—	—	—	—	—	—
Lin Zhe Ying	—	—	—	—	—	—	—	—
Chen Da Zhi	—	—	—	—	—	—	—	—
Lim Yu Neng, Paul(4)	—	—	100,000	0.02	—	—	100,000	0.004
Lee Kheng Joo	—	—	—	—	—	—	—	—
Cheng Fong Yee, Fonda	—	—	—	—	—	—	—	—
Substantial Shareholders (other than existing Directors)								
Giant Delights Holdings Limited	84,189,596	16.49	—	—	84,189,596	3.44	—	—
Wang Yu Huei(5)	71,610,700	14.03	—	—	71,610,700	2.92	—	—
FIL Limited(6)	38,295,000	7.50	—	—	38,295,000	1.56	—	—
Enlarged Group Directors (other than existing Directors)								
Chen Xiaoping	—	—	—	—	—	—	—	—
Wang Tianyi	—	—	—	—	—	—	—	—
An Xuesong	—	—	—	—	—	—	—	—
Yang Zhiqiang	—	—	—	—	—	—	—	—
New Substantial Shareholders								
China Everbright Water Holdings Limited	—	—	—	—	1,940,269,305	79.17	—	—
China Everbright Environmental Protection Holdings Limited(7)	—	—	—	—	—	—	1,940,269,305	79.17
CEIL(7)	—	—	—	—	—	—	1,940,269,305	79.17
Other Shareholders	316,387,598	61.98	—	—	316,387,598	12.91	—	—
Total	510,482,894	100.00	—	—	2,450,752,199	100.00	—	—

Notes:

(1) As at the Latest Practicable Date, based on the existing 510,482,894 issued Shares.

(2) Assuming no outstanding share options under the Company's employee share option scheme are exercised between the Latest Practicable Date and Completion.

(3) As at the Latest Practicable Date, Chen Dawei, David is the sole shareholder and director of Giant Delight Holdings Limited. Accordingly, he is deemed interested in 84,189,596 Shares held by Giant Delight Holdings Limited, by virtue of section 7 of the Companies Act.

(4) As at the Latest Practicable Date, Lim Yu Neng, Paul is deemed interested in 100,000 Shares held by Citibank Nominees Singapore Pte. Ltd.

(5) The number of Shares held by Wang Yu Huei is as at 2 October 2014.

(6) The number of Shares held by FIL Limited is as at 25 September 2014.

(7) China Everbright Environmental Protection Holdings Limited and CEIL are deemed interested in the 1,940,269,305 Shares held by China Everbright Water Holdings Limited.

As a result of the Proposed Acquisition, the collective shareholding interests of the Independent Shareholders will be diluted. The Independent Shareholders' aggregate shareholding in the Company could potentially be diluted to approximately 20.83% of the enlarged issued share capital of the Company (assuming no outstanding share options under the Company's employee share option scheme are exercised between the Latest Practicable Date and Completion) or 22.00% of the enlarged issued share capital of the Company (assuming all outstanding share options under the Company's employee share option scheme are exercised between the Latest Practicable Date and Completion).

6.5 Moratorium

Subject to certain exceptions set out below, the Vendor has agreed with the Financial Adviser that it will not, without the prior written consent of the Financial Adviser (such consent not to be unreasonably withheld or delayed), for a period of six months commencing from the date of listing of the Consideration Shares on the Singapore Exchange Securities Trading Limited (the "**Listing Date**") (the "**Lock-Up Period**"), directly or indirectly (a) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of its effective interest in the Shares which it legally and/or beneficially, directly and/or indirectly, owns or will own immediately after the completion of the Proposed Acquisition (the "**Lock-Up Shares**") (including any interests or securities convertible into or exchangeable for Lock-Up Shares or which carry rights to subscribe for or purchase any Lock-Up Shares); (b) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing; (c) deposit any or all Lock-Up Shares in any depository receipt facility; (d) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or (e) publicly announce any intention to do any of the above.

Subject to the approval of the SGX-ST, the restrictions described above do not apply to prohibit the Vendor from:

(a) creating a charge over the Lock-Up Shares or otherwise granting security over or creating any encumbrance over the Lock-Up Shares, provided that such charge, security or encumbrance can only be enforced after the Lock-Up Period. The charge, security or encumbrance will only be created if the chargee (such as a bank or financial institution) agrees that the charge, security or encumbrance over any Lock-Up Shares cannot be enforced over the Lock-Up Shares during the Lock-Up Period; or

(b) transferring the Lock-Up Shares to and between wholly-owned subsidiaries of the Vendor (the "**Transferee Subsidiaries**"), provided that:

    (i) the Vendor has executed and delivered to DBS an undertaking to the effect that for the unexpired period of the Lock-Up Period, it will not, without the prior written consent of DBS, directly or indirectly:

        (1) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of its shares in the Transferee Subsidiaries (including any interests or securities convertible into or exchangeable for shares in the Transferee Subsidiaries or which carry rights to subscribe for or purchase any shares in the Transferee Subsidiaries);

        (2) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing;

        (3) deposit any of shares in the Transferee Subsidiaries in any depository receipt facility;

(4) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or

(5) publicly announce any intention to do any of the above; and

(ii) the Vendor has procured that each of the Transferee Subsidiaries have executed and delivered to DBS Bank an undertaking to the effect that the Transferee Subsidiaries will comply with the restrictions above in respect of the Lock-Up Shares for the unexpired period of the Lock-Up Period.

Each of CEIL (being the sole legal and beneficial owner of the entire issued share capital in CEEPH) and CEEPH (being the sole legal and beneficial owner of the entire issued share capital of the Vendor) has agreed with the Financial Adviser that, subject to certain exceptions set out below, it will not, without the prior written consent of the Financial Adviser during the Lock-Up Period (such consent not to be unreasonably withheld or delayed), directly or indirectly, (a) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of their shares in CEEPH or the Vendor (whichever is applicable), which shall comprise 100.0% of the issued shares in CEEPH (such shares in CEEPH, the "**CEEPH Lock-Up Shares**") or the Vendor (such shares in the Vendor, the "**Vendor Lock-Up Shares**"), whichever is applicable (including any interests or securities convertible into or exchangeable for CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable) or which carry rights to subscribe for or purchase any CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable)); (b) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing; (c) deposit any of the CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable) in any depository receipt facility; (d) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or (e) publicly announce any intention to do any of the above.

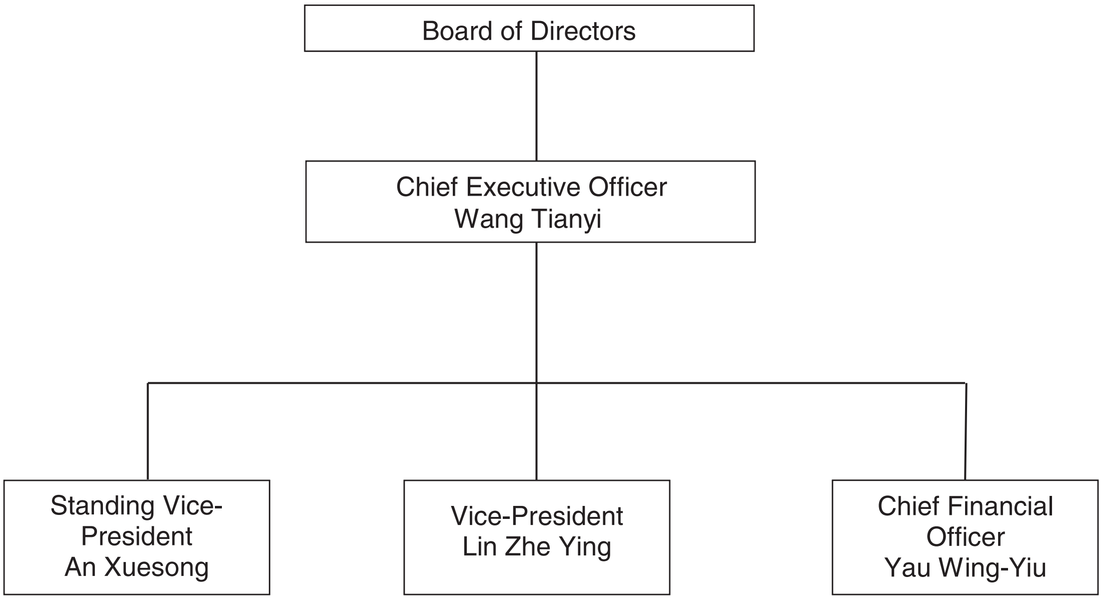
Subject to the approval of the SGX-ST, the restrictions above do not apply to prohibit:

(a) CEIL from creating a charge or allowing an existing charge over the CEEPH Lock-Up Shares to subsist, provided that such charge cannot be enforced with respect to any CEEPH Lock-Up Shares during the Lock-Up Period. The charge will only be permissible if the chargee (such as a bank or financial institution) agrees that the charge over the CEEPH Lock-Up Shares cannot be enforced over any CEEPH Lock-Up Shares during the Lock-Up Period; and

(b) CEEPH from creating a charge or allowing an existing charge over the Vendor Lock-Up Shares to subsist, provided that such charge cannot be enforced with respect to any Vendor Lock-Up Shares during the Lock-Up Period. The charge will only be permissible if the chargee (such as a bank or financial institution) agrees that the charge over the Vendor Lock-Up Shares cannot be enforced over any Vendor Lock-Up Shares during the Lock-Up Period.

6.6 Management Reporting Structure

Upon Completion, the Enlarged Group's new management team will be as follows:



6.7 Enlarged Group Directors

The Company proposes to constitute a new Board and appoint the Proposed New Directors following Completion.

As at the Latest Practicable Date, the particulars of the Enlarged Group Directors are set out below:

Name	**Age**	**Address**	**Proposed Position in the Enlarged Group**
Chen Xiaoping (陈小平)	60	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Non-executive Director and Chairman
Wang Tianyi (王天义)	52	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Executive Director, Vice-Chairman and Chief Executive Officer
Chen Dawei, David (陈大伟)	44	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Executive Director and Vice-Chairman

Name	Age	Address	Proposed Position in the Enlarged Group
An Xuesong (安雪松)	43	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Executive Director and Standing Vice-President
Yang Zhiqiang (杨志强)	54	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Non-executive Director
Lim Yu Neng, Paul (林御能)	52	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Independent Director
Lee Kheng Joo (李庆裕)	51	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Independent Director
Cheng Fong Yee, Fonda (郑凤仪)	58	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Independent Director

Qualifications and Working Experience

The qualifications and working experience of each of the Enlarged Group Directors are as follows:

Chen Xiaoping is proposed to be appointed a Non-Executive Director and Chairman of the Company upon Completion. Mr Chen has been an Executive Director and the Chief Executive Officer of CEIL since August 2001. He has also been the Vice-Chairman of China Everbright Holdings Company Limited since April 2012 and a Standing Director of China Environmental Culture Promotion Association since October 2005. Prior to joining CEIL, Mr Chen was a department head in the Bureau of Investigation & Supervision of The People's Bank of China from January 1989 to August 1996, the Assistant Governor of China Everbright Bank Company Limited from September 1997 to July 2000 and the President of the Bank's Guangzhou Branch from December 1999 to July 2000. He graduated from the Department of Finance of the Southwest University in Finance and Economics, the PRC, in June 1988, finished the MBA class of the Research Institute of Business Management of Sichuan University, the PRC, in October 1997, and has held a Master's Degree with a major in Money & Banking from the Department of Finance and Trade of the China Research Institute of Social Science since November 1998. He has held the title of Senior Economist and Certified Public Accountant in the PRC since June

1993 and July 1997 respectively. He was also engaged as a researcher at the China International Economic Development Research Centre from August 2006 to August 2011. He has rich experience and extensive knowledge in banking, capital market and management.

Wang Tianyi is proposed to be appointed an Executive Director, Vice-Chairman and Chief Executive Officer of the Company upon Completion. Mr Wang has been an Executive Director and the General Manager of CEIL since February 2010. Prior to joining the CEIL Group, he was the President of Shandong Academy of Science from January 2008 to January 2010. He was the Deputy Mayor of Jinan City of Shandong Province from June 2000 to December 2007, and was the Vice-President, Dean and Professor of Economic Management Faculty of Yantai University of Shandong Province from September 1988 to December 1999. He has also been a part-time professor and doctoral tutor of Shandong University from February 2010, and a member of HKTDC Mainland Business Advisory Committee from April 2012. He has held a Doctorate's Degree in Engineering, a Master's Degree in Management and a Bachelor's Degree in Electronics from Tsinghua University since June 1997, June 1988 and July 1985 respectively.

Chen Dawei, David is proposed to be appointed an Executive Director and Vice-Chairman of the Company upon Completion. Mr Chen was the Executive Chairman and Chief Executive Officer of the Company from May 2011 to December 2011, whereupon he relinquished his position as Chief Executive Officer and was redesignated as Executive Chairman since December 2011, where he is currently responsible for the HanKore Group's strategic planning and business development. Prior to joining the HanKore Group in September 2010, he accumulated experience in the wastewater treatment industry as the founder and Chief Executive Officer of Beijing Revolution Science and Technology Co., Ltd. from June 2006 to September 2010 and President of Tianjin Com-link Water Treatment Engineering & Technology Co., Ltd. from April 2004 to June 2006. Mr Chen was also a Director of Beijing Juntai Investment Management Limited from March 2003 to June 2006. He obtained a Master of Business Administration Degree from Southwest International University in July 2003 and an Executive Master of Business Administration (majoring in China-America Finance) from Peking University in July 2012. Mr Chen is currently an Executive Master of Business Administration candidate at the National University of Singapore.

An Xuesong is proposed to be appointed an Executive Director and Standing Vice-President of the Company upon Completion. Mr An has been the Assistant General Manager and the General Manager of Investment Management Department of CEIL since January 2010. He obtained a Master of Business Administration Degree of Jinan University in January 2000. Mr An has held the title of Certified Public Accountant in the PRC and International Internal Auditor since December 2003 and November 2001 respectively. He has comprehensive experience and knowledge in project management, accounting management and risk management. Mr An joined the CEIL Group in May 2002.

Yang Zhiqiang is proposed to be appointed a Non-Executive Director of the Company upon Completion. Mr Yang has been the Chief Legal Officer of CEIL since July 2012. Prior to joining the China Everbright Group, he was formerly the Legal Assistant and PRC legal consultant of Livasiri & Co. from October 1998 to December 2013, the lawyer of Beijing Xinghe Legal Firm from January 2000 to March 2001 and Jiade Legal Firm, Shenzhen branch from April 2001 to December 2002. He graduated in Medical Science Department from Beijing Medical University in August 1984. He obtained the Professional Certificate of Law recognized by the Law Society of England and Wales in August 1998 and holds the title of Lawyer in the PRC since October 1999. Mr Yang joined the CEIL Group in December 2003.

Lim Yu Neng, Paul was an Independent Director of the Company from July 2007 to June 2010, was appointed the Interim Acting Chief Executive Officer and Executive Director of the HanKore Group from June 2010 to May 2011, was re-designated a Non-Executive Director of the Company from May 2011 to February 2013 and subsequently appointed as Lead Independent Director(1) of the Company from February 2013 till the present. Mr Lim will continue as an Independent Director of the Company upon Completion. He has also been an independent director of United Fiber System Limited since August 2007, an independent director of Nippecraft Limited since July 2011 and a Non-Executive Director of Intrepid Mines Limited, a company listed on the Australian Stock Exchange, since May 2014. Mr Lim has over 26 years of banking experience. He has been the Non-Executive Chairman of PT BNI Securities since March 2013 and was an advisor at PT BNI Securities from March 2010 to March 2013. He was the Managing Director and advisor of Leafgreen Capital Partners Pte. Ltd. from July 2012 to September 2013 and September 2013 to August 2014, respectively. He was also a consultant to Deutsche Bank Singapore from March 2003 to July 2008 and Morgan Stanley Asia (Singapore) Pte Ltd from August 2008 to July 2010. Prior to that, he held various management positions at Salomon Smith Barney and Bankers Trust from September 1999 to January 2003 and June 1993 to July 1999 respectively. Mr Lim obtained his Master of Business Administration Degree in Finance and a Bachelor of Science Degree in Computer Science from the University of Wisconsin, Madison, USA, in December 1986 and May 1985 respectively. He has also been a Chartered Financial Analyst with the Institute of Chartered Financial Analysts of the United States of America since September 1991.

Lee Kheng Joo has been an Independent Director of the Company since May 2011 and will continue to be an Independent Director of the Company upon Completion. Mr Lee has been the Managing Director of Longxi Holdings, an oil and gas investment and management company since September 2014. Mr Lee was the Chief Executive Officer of Longmen Group from October 2005 to August 2014. Mr Lee used to work as a commercial manager at Philips Lighting in Asia Pacific Management Centre based in Taiwan from August 1988 to November 1991. He became the product manager of Singapore Telecommunications Limited in April 1992 to March 1994 and was subsequently based in China as Sales and Marketing Director of Hutchinson Telecoms from March 1994 to March 1996. Mr Lee was the Chief Operating Officer of Pacific Internet's Hong Kong operations from March 1996 to October 1999 before joining Asia Online as the Group General Manager from October 1999 to 2001. Mr Lee graduated with a Bachelor of Business Administration Degree from the National University of Singapore in March 1987.

Cheng Fong Yee, Fonda has been an Independent Director of the Company since July 2007 and will continue to be an Independent Director of the Company upon Completion. Ms Cheng has been the head of the Insurance Division of AsiaOne Insurance Agency Pte. Ltd. in Singapore since September 2011 and has also been the Executive Director (Principal Representative) of the Cambodia Branch of AsiaOne Insurance Agency Pte. Ltd. since October 2012. She also headed the Business Development Department of Aon Insurance Brokers, the biggest broking house in Asia, from September 1998 to February 2009 and managed the insurance division of the Singapore Technologies Group from June 1986 to December 1997. She has more than 20 years of experience in the insurance industry and is an Associate of the Australian Insurance Institute. She has been involved in major overseas insurance projects, particularly in the Asia Pacific, and is actively involved in utilising insurance as a financial tool for project development in Asia Pacific. Ms Cheng completed her insurance study in April 1987 at the Australian Insurance Institute.

Note:

(1) The Board of Directors had considered Mr Lim Yu Neng, Paul to be independent for the purposes of Rule 704(8) of the Listing Manual for the following reasons:

(a) Mr Lim Yu Neng, Paul agreed to act as the interim acting Chief Executive Officer while the Company looked for a suitable candidate to fill the position of Chief Executive Officer when the previous acting Chief Executive Officer who had been persuaded to stay on decided to resign with effect from 30 June 2010;

(b) While Mr Lim Yu Neng, Paul was the Company's interim acting Chief Executive Officer and Executive Director from 30 June 2010 to 20 May 2011, this was only for a short period of time and his executive position was clearly stated to be an "interim" one, and not a permanent position. He stepped down immediately upon completion of the contract with the Company and when the Company found a suitable candidate;

(c) Given Mr Lim Yu Neng, Paul's relatively short period of appointment as the interim acting Chief Executive Officer, compared to his approximate 3 year appointment as an Independent Director of the Company, the Company considers that the foregoing does not have a significant impact on the exercise of his independent business judgment with a view to the best interests of the Company; and

(d) Save as disclosed in this Note (1)(a), (b) and (c) above, Mr Lim Yu Neng, Paul is a Director with no relationship to the Company, its related companies, its 10.0% shareholders or its officers that could reasonably be perceived to interfere with the exercise of his independent business judgment with a view to the best interests of the Company.

Relationships

Save as disclosed in this Section 6.7 titled "Enlarged Group Directors" of the HanKore Letter, as at the Latest Practicable Date, none of the Enlarged Group Directors is related to another Enlarged Group Director, Proposed Executive Officer or Substantial Shareholder of the Enlarged Group.

As at the Latest Practicable Date, none of the proposed Independent Directors sits on the board of any of the Target Subsidiaries or on the board of the Company's principal subsidiaries that are based in jurisdictions other than Singapore.

Present and Past Directorships of the Enlarged Group Directors

The list of past and present directorships of the Enlarged Group Directors for the past five years preceding the Latest Practicable Date, is set out below:

Name	Present Directorships	Past Directorships
Chen Xiaoping	**Companies within the Enlarged Group** Everbright Water (Ji'nan) Holdings Limited Everbright Water (Dezhou) Holdings Limited Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited) Everbright Water (Wuxi) Holdings Limited Everbright Water (Xuzhou) Holdings Limited Everbright Water (Zibo) Holdings Limited China Everbright Water Investments Limited	**Companies within the Enlarged Group** None
	Other Companies Campink Investments Limited Cheerique Co. Ltd. China Everbright Alternative Energy Holdings Limited China Everbright Biomass Energy Investment Limited China Everbright Clean Energy Investment Limited China Everbright Environmental Protection Holdings Limited China Everbright Environmental Protection Industrial Park Investment Limited China Everbright Holdings Company Limited China Everbright International Ltd China Everbright Securities Investments Ltd China Everbright Environmental Engineering Management Limited China Everbright Environmental Solid Waste Treatment Holdings Limited East Force Co. Limited	**Other Companies** China Everbright Road & Bridge (Fujian) Investment Limited Fuzhou Guang Min Road and Bridge Construction & Development Company Limited Everbright Environmental Energy (Suqian) Ltd. Everbright Environmental Energy (Huidong) Limited Greenway Venture Limited

Name	Present Directorships	Past Directorships
	Everbright Alternative Energy (Suzhou) Holdings Limited	
	Everbright Biomass Energy (Chaohu) Holdings Limited	
	Everbright Biomass Energy (Huaian) Holdings Limited	
	Everbright Biomass Energy (Lianyungang) Holdings Limited	
	Everbright Biomass Energy (Bengbu) Holdings Limited	
	Everbright Biomass Energy (Suqian) Holdings Limited	
	Everbright Biomass Energy (Chuzhou) Holdings Limited	
	Everbright Clean Energy (Anqing) Holdings Limited	
	Everbright Clean Energy (Changzhou) Holdings Limited	
	Everbright Clean Energy (Suqian) Holdings Limited	
	Everbright Clean Energy (Xinzhou) Holdings Limited	
	Everbright Clean Energy (Zhenjiang) Holdings Limited	
	Everbright Environmental Energy (Changzhou) Holdings Limited	
	Everbright Environmental Energy (Anhui Suzhou) Holdings Limited	
	Everbright Environmental Energy (Hangzhou) Holdings Limited	
	Everbright Environmental Energy (Heze) Holdings Limited	
	Everbright Environmental Energy (Huizhou) Holdings Limited	
	Everbright Environmental Energy (Jinan) Holdings Limited	
	Everbright Environmental Energy (Jiangyin) Holdings Limited	
	Everbright Environmental Energy (Maanshan) Holdings Limited	
	Everbright Environmental Energy (Nanjing) Holdings Limited	
	Everbright Environmental Energy (Ningbo) Holdings Limited	
	Everbright Environmental Energy (Rizhao) Holdings Limited	
	Everbright Environmental Energy (Sanya) Holdings Limited	
	Everbright Environmental Energy (Suqian) Holdings Limited	
	Everbright Environmental Energy (Suzhou) Holdings Limited	

Name	Present Directorships	Past Directorships
	Everbright Environmental Energy (Weifang) Holdings Limited Everbright Environmental Energy (Xuzhou) Holdings Limited Everbright Environmental Energy (Yixing) Holdings Limited Everbright Environmental Energy (Yiyang) Holdings Limited Everbright Environmental Energy (Zaozhuang) Holdings Limited Everbright Environmental Energy (Zhengzhou) Holdings Limited Everbright Environmental Energy (Zhenjiang) Holdings Limited Everbright International Environmental Protection Charitable Foundation Company Limited Everbright Solid Waste Treatment (Changzhou) Holdings Limited Everbright Solid Waste Treatment (Lianyungang) Holdings Limited Everbright Solid Waste Treatment (Shouguang) Holdings Limited Everbright Solid Waste Treatment (Xuzhou) Holdings Limited Everbright Solid Waste Treatment (Yancheng) Holdings Limited Everbright Solid Waste Treatment (Zibo) Holdings Limited High Luxury Trading Limited Kinbase International Limited Riseland Holdings Limited On Land Limited Topstair Development Limited Cannick Holdings Limited China Everbright Environmental Energy Limited China Everbright Environmental Energy (HK) Investment Limited China Everbright International Investment Management Limited China Everbright Water Holdings Limited Guildford Limited Maddington Limited Everbright Environmental Protection Technology Equipment (Changzhou) Limited Everbright Environmental Protection (China) Limited Everbright Environmental Protection Venture Capital (Shenzhen) Ltd. Everbright Environmental Protection Technological Development (Beijing) Limited Everbright Environmental Protection Engineering (Shenzhen) Ltd. Everbright Environmental Protection Operation Management (Shenzhen) Limited Everbright Environmental Protection Technology Research Institute (Shenzhen) Limited	

Name	Present Directorships	Past Directorships
Wang Tianyi	**Companies within the Enlarged Group** Everbright Water (Ji'nan) Holdings Limited Everbright Water (Dezhou) Holdings Limited Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited) Everbright Water (Zibo) Holdings Limited Everbright Water (Wuxi) Holdings Limited Everbright Water (Xuzhou) Holdings Limited China Everbright Water Investments Limited Qingdao EB-VW Waste Water Treatment Ltd. Everbright Water (Zibo) Ltd Everbright Water (Ji'nan) Ltd Everbright Water (Boxing) Ltd Everbright Water (Zibo Zhoucun) Water Purification Ltd Everbright Water (Jiangyin) Ltd Everbright Water (Ji'nan Licheng) Ltd Zibo Everbright Water Energy Development Ltd Everbright Water (Lingxian) Ltd Everbright Water (Xinyi) Ltd Everbright Reusable Water (Jiangyin) Ltd Everbright Water (Dezhou) Ltd Everbright Water (Zhangqiu) Ltd Qingdao Everbright Water Operating Limited (formerly known as Qingdao Veolia Operating Company Limited)	**Companies within the Enlarged Group** None
	Other Companies Campink Investments Limited Cheerique Company Limited China Everbright Alternative Energy Holdings Limited China Everbright Biomass Energy Investment Limited China Everbright Clean Energy Investment Limited China Everbright Environmental Protection Holdings Limited China Everbright Environmental Protection Industrial Park Investment Limited China Everbright International Limited (Stock Code : 00257) China Everbright Securities Investments Limited China Everbright Environmental Engineering Management Limited China Everbright Environmental Solid Waste Treatment Holdings Limited East Force Co. Limited Everbright Alternative Energy (Suzhou) Holdings Limited Everbright Biomass Energy (Bengbu) Holdings Limited Everbright Biomass Energy (Chaohu) Holdings Limited	**Other Companies** China Everbright Road & Bridge (Fujian) Investment Limited Greenway Venture Limited Fuzhou Guang Min Road and Bridge Construction & Development Company Limited Everbright Environmental Energy (Suzhou) Ltd. Everbright Environmental Energy (Suzhou) Methane-to-Energy Limited Everbright Environmental Energy (Jiangyin) Ltd. Everbright Environmental Energy (Changzhou) Co., Ltd. Everbright Environmental Energy (Jinan) Co., Ltd. Everbright Environmental Energy (Zhenjiang) Co., Ltd. Everbright Environmental Energy (Suqian) Ltd. Everbright Environmental Energy (Huidong) Limited Everbright Alternative Energy (Dangshan) Co., Ltd. Everbright Biomass Energy (Hanshan) Ltd. Everbright Environmental Energy (Nanjing) Ltd. Everbright Environmental Energy (Ningbo) Co., Ltd. Everbright Environmental Energy (Pizhou) Ltd.

Name	Present Directorships	Past Directorships
	Everbright Biomass Energy (Chuzhou) Holdings Limited	Everbright Environmental Energy (Boluo) Limited
	Everbright Biomass Energy (Huaian) Holdings Limited	Everbright Environmental Energy (Shouguang) Co., Ltd.
	Everbright Biomass Energy (Lianyungang) Holdings Limited	Everbright Environmental Energy (Ninghai) Limited
	Everbright Biomass Energy (Lianyungang) Holdings Limited	Everbright Environmental Energy (Weifang) Limited
	Everbright Biomass Energy (Suqian) Holdings Limited	Suzhou Wujiang Everbright Environmental Energy Limited
	Everbright Clean Energy (Germany) Holdings Limited	Everbright Environmental Energy (Rizhao) Limited
	Everbright Clean Energy (Anqing) Holdings Limited	Everbright Environmental Energy (Heze) Limited
		Everbright Environmental Energy (Sanya) Co.,Ltd.
	Everbright Clean Energy (Changzhou) Holdings Limited	
	Everbright Clean Energy (Suqian) Holdings Limited	
	Everbright Clean Energy (Xinzhou) Holdings Limited	
	Everbright Clean Energy (Zhenjiang) Holdings Limited	
	Everbright Environmental Energy (Changzhou) Holdings Limited	
	Everbright Environmental Energy (Anhui Suzhou) Holdings Limited	
	Everbright Environmental Energy (Hangzhou) Holdings Limited	
	Everbright Environmental Energy (Heze) Holdings Limited	
	Everbright Environmental Energy (Huizhou) Holdings Limited	
	Everbright Environmental Energy (Jiangyin) Holdings Limited	
	Everbright Environmental Energy (Jinan) Holdings Limited	
	Everbright Environmental Energy (Maanshan) Holdings Limited	
	Everbright Environmental Energy (Nanjing) Holdings Limited	
	Everbright Environmental Energy (Ningbo) Holdings Limited	
	Everbright Environmental Energy (Rizhao) Holdings Limited	
	Everbright Environmental Energy (Sanya) Holdings Limited	
	Everbright Environmental Energy (Suqian) Holdings Limited	
	Everbright Environmental Energy (Suzhou) Holdings Limited	
	Everbright Environmental Energy (Weifang) Holdings Limited	
	Everbright Environmental Energy (Xuzhou) Holdings Limited	
	Everbright Environmental Energy (Yixing) Holdings Limited	

Name	Present Directorships	Past Directorships
	Everbright Environmental Energy (Yiyang) Holdings Limited	
	Everbright Environmental Energy (Zaozhuang) Holdings Limited	
	Everbright Environmental Energy (Zhengzhou) Holdings Limited	
	Everbright Environmental Energy (Zhenjiang) Holdings Limited	
	Everbright Solid Waste Treatment (Changzhou) Holdings Limited	
	Everbright Solid Waste Treatment (Lianyungang) Holdings Limited	
	Everbright Solid Waste Treatment (Shouguang) Holdings Limited	
	Everbright Solid Waste Treatment (Xuzhou) Holdings Limited	
	Everbright Solid Waste Treatment (Yancheng) Holdings Limited	
	Everbright Solid Waste Treatment (Zibo) Holdings Limited	
	High Luxury Trading Limited	
	Kinbase International Limited	
	Riseland Holdings Limited	
	On Land Limited	
	Topstair Development Limited	
	Cannick Holdings Limited	
	China Everbright Environmental Energy Limited	
	China Everbright Environmental Energy (HK) Investment Limited	
	China Everbright International Investment Management Limited	
	China Everbright Water Holdings Limited	
	Everbright Clean Energy (Germany) Investment Limited	
	Maddington Limited	
	Everbright Environmental Protection (China) Limited	
	Everbright Environmental Protection Venture Capital (Shenzhen) Ltd.	
	Everbright Environmental Protection (Suzhou) Solid Waste Treatment Limited	
	Everbright Environmental Protection Technological Development (Beijing) Limited	
	Everbright Photovoltaic Energy (Huaining) Limited	
	Everbright Photovoltaic Energy (Zhenjiang) Limited	
	Everbright Photovoltaic Energy (Suqian) Limited	
	Everbright Environmental Protection (Suqian) Solid Waste Treatment Limited	
	Everbright Environmental Protection Technology Equipment (Changzhou) Limited	
	Everbright Photovoltaic Energy (Changzhou) Limited	

Name	Present Directorships	Past Directorships
	Everbright Environmental Protection (Lianyungang) Solid Waste Treatment Limited Everbright Environmental Protection Engineering (Shenzhen) Ltd. Everbright Environmental Protection Operation Management (Shenzhen) Limited Everbright Environmental Protection (Yancheng) Solid Waste Treatment Limited Everbright Environmental Protection Hazardous Waste Treatment (Zibo) Limited Everbright Environmental Protection Technology Research Institute (Shenzhen) Limited Everbright Environmental Protection (Lianyungang) Waste Treatment Limited Everbright Wind Power (Ningwu) Limited Everbright Environmental Solid Waste Treatment (Xinyi) Limited	
Chen Dawei, David	**Companies within the Enlarged Group** Aqua Shine Group Limited Beijing Bio-Treat Water Co., Ltd. Beijing Hankesen Environmental Technology Co., Ltd. Binzhou Jin Di Co., Ltd. Biopower International Limited Bio-Treat International Limited Bio-Treat Resources Limited HanKore Environment Tech Group Limited HanKore International Pte Ltd Joyer International Limited Nanjing Golden Idea Water Development Co., Ltd. Nanjing Jin Huan Water Development Co., Ltd. New Efficient Limited Newsussex International Limited Ocean Force International Ltd Ocean Master International Limited Oriental Fortune International Ltd Sky Billion Limited Trademart Developments Limited True Global Limited Victor Best Holdings Ltd World Pioneer Investments Limited Xianyang Bai Sheng Shui Purifying Co., Ltd.	**Companies within the Enlarged Group** None
	Other Companies Beijing Revolution Science and Technology Co., Ltd. Giant Delight Holdings Ltd	**Other Companies** None

Name	Present Directorships	Past Directorships
An Xuesong	**Companies within the Enlarged Group**	**Companies within the Enlarged Group**
	Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited)	None
	Everbright Water (Dezhou) Ltd	
	Everbright Water (Zibo) Ltd	
	Everbright Water (Ji'nan) Ltd	
	Everbright Water (Boxing) Ltd	
	Everbright Water (Zibo Zhoucun) Water Purification Ltd	
	Everbright Water (Jiangyin) Ltd	
	Everbright Water (Ji'nan Licheng) Ltd	
	Zibo Everbright Water Energy Development Ltd	
	Everbright Water (Lingxian) Ltd	
	Everbright Water (Xinyi) Ltd	
	Everbright Water (Zhangqiu) Ltd	
	Qingdao Everbright Water Operating Limited (formerly known as Qingdao Veolia Water Operating Company Limited)	
	Other Companies	**Other Companies**
	Everbright Clean Energy (Germany) Holdings Limited	None
	Everbright International Environmental Protection Charitable Foundation Co Ltd	
	Everbright Clean Energy (Germany) Investment Limited	
	China Everbright International Investment Management Limited	
	Everbright Environmental Protection Venture Capital (Shenzhen) Ltd.	
	Everbright Environmental Energy (Suzhou) Ltd.	
	Everbright Environmental Protection (China) Limited	
	Everbright Environmental Energy (Jinan) Co., Ltd.	
	Everbright Environmental Protection (Lianyungang) Solid Waste Treatment Limited	
	Everbright Environmental Energy (Pizhou) Ltd.	
	Everbright Environmental Energy (Sanya) Co., Ltd.	
	Everbright Environmental Energy (Boluo) Limited	
	Everbright Environmental Energy (Shouguang) Co., Ltd.	
	Everbright Environmental Protection (Yancheng) Solid Waste Treatment Limited	
	Everbright Environmental Energy (Weifang) Limited	
	Suzhou Wujiang Everbright Environmental Energy Limited	
	Everbright Environmental Energy (Rizhao) Limited	

Name	Present Directorships	Past Directorships
	Everbright Environmental Protection Hazardous Waste Treatment (Zibo) Limited Everbright Environmental Energy (Heze) Limited Everbright Changgaoxin Environmental Energy (Changzhou) Limited Everbright Environmental Energy (Yiyang) Limited Everbright Wind (Ning Wu) Limited	
Yang Zhiqiang	**Companies within the Enlarged Group** China Everbright Water Investments Limited	**Companies within the Enlarged Group** None
	Other Companies China Everbright Environmental Energy Limited Riseland Holdings Limited	**Other Companies** Fuzhou Guang Min Road and Bridge Construction & Development Company Limited
Lim Yu Neng, Paul	**Companies within the Enlarged Group** HanKore Environment Tech Group Limited	**Companies within the Enlarged Group** None
	Other Companies C Oceans Capital Pte Ltd Fides Asia Limited Fides Capital Partners Limited Intrepid Mines Limited New City International Holdings Limited Nippecraft Limited TruPartners Asia Pte Limited TruPartners Capital (Asia) Limited United Fiber System Limited	**Other Companies** Leafgreen Capital Partners Pte Ltd
Lee Kheng Joo	**Companies within the Enlarged Group** HanKore Environment Tech Group Limited HanKore International Pte Ltd	**Companies within the Enlarged Group** None
	Other Companies Grand Canyon Investment Private Limited Jasper Energy Pty Ltd Longxi Holdings	**Other Companies** LM (BJ) Investments (Mauritius) LM Company (Cayman) LM Energy Co (HK) LM Engineering (HK) LM Gas (HK) LM Gas HC (HK) LM Hui Cheng Investment (HK) LM Hui Cheng Investment (Mauritius) LM Properties (HK) Longmen Group (Mauritius) Shaanxi Feng He New Energy Shaanxi Heaven-Sent CBM Shaanxi Heaven-Sent CMM Power Shaanxi Tiandi Oil and Gas

Name	Present Directorships	Past Directorships
Cheng Fong Yee, Fonda	**Companies within the Enlarged Group** HanKore Environment Tech Group Limited **Other Companies** AsiaOne Insurance Agency Pte. Ltd. AsiaOne Insurance Agency (Cambodia) Pte. Ltd.	**Companies within the Enlarged Group** None **Other Companies** None

Experience and Training of the Enlarged Group Directors

Pursuant to Rule 210(5) of the Listing Manual, Chen Dawei, David, Lim Yu Neng, Paul, Lee Kheng Joo and Cheng Fong Yee, Fonda have prior experience as directors of public listed companies in Singapore, and are familiar with the roles and responsibilities of a director of a public listed company in Singapore.

As evidenced by their respective business and working experience set out above, the Proposed New Directors possess the appropriate experience and expertise to act as directors of the Company. In accordance with the requirements under the Listing Manual, the Proposed New Directors will be briefed on the roles and responsibilities of a director of a public listed company in Singapore.

Arrangement or Understanding

As at the Latest Practicable Date, none of the Enlarged Group Directors has any arrangements or understanding with any of the Substantial Shareholders, customers or suppliers or other person of the Enlarged Group pursuant to which such persons are or will be appointed.

6.8 Proposed Executive Officers

After the Completion, the Enlarged Group will have a new senior management team, comprising Wang Tianyi (who is proposed to be appointed the Executive Director, Vice-Chairman and Chief Executive Officer of the Company on Completion), An Xuesong (who is proposed to be appointed the Executive Director and Standing Vice-President of the Company on Completion), Yau Wing-Yiu (who is the existing Chief Financial Officer of the Company) and Lin Zhe Ying (who is an existing Executive Director of the Company). Lin Zhe Ying will be re-designated as the Vice-President of the Company on Completion. Nie Jian Sheng (who is the existing Executive Director and Chief Executive Officer of the Company) will resign from these appointments upon Completion and will serve as a senior consultant to the Company.

As at the Latest Practicable Date, the particulars of the Proposed Executive Officers are as follows:

Name	**Age**	**Address**	**Proposed Position in the Enlarged Group**
Wang Tianyi (王天义)	52	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Executive Director, Vice-Chairman and Chief Executive Officer
An Xuesong (安雪松)	43	Room 2703, 27/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Executive Director and Standing Vice-President
Lin Zhe Ying (林哲莹)	50	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Vice-President
Yau Wing-Yiu (邱永耀)	48	9 Battery Road, Straits Trading Building, #20-02, Singapore 049910	Chief Financial Officer

Qualifications and Working Experience

The qualifications and working experience of each of the Proposed Executive Officers, save for that of Wang Tianyi and An Xuesong, which are disclosed in Section 6.7 above, are as follows:

Lin Zhe Ying has been an Executive Director of the Company since May 2011 and is proposed to be appointed the Vice-President of the Company upon Completion. Mr Lin has also been the Director of Ancient Jade Capital Management Co., Ltd. since January 2011 and the Vice-Chairman and Senior Vice-President of SF Express Limited since June 2014. Prior to that, Mr Lin was the Deputy Director of the Department of Foreign Trade of the Ministry of Commerce of the PRC from July 1987 to November 2010. Mr Lin obtained a Doctor Degree of Business Administration from ESC Rennes School of Business in June 2008 and a Master of Business Administration Degree from the Peking University School of Guanghua Management in July 2006.

Yau Wing-Yiu has been the Executive Director and Chief Financial Officer of the Company since February 2013 and will continue to be the Chief Financial Officer of the Company upon Completion. Mr Yau has also been an Independent Director of Carry Wealth Holdings Limited since July 2011. Prior to joining the HanKore Group in February 2013, he took on the roles of Executive Director of China Strategic Holdings Limited from December 2009 to January 2013, Finance Director of Microsoft China Company Limited and Senior Vice-President, Mergers and Acquisition of PCCW. Mr Yau obtained a Master of Business Administration Degree from the Hong Kong University of Science and Technology in November 1996 and a Bachelor of Arts Degree from the City University of Hong Kong in November 1989. He is also a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

Relationships

Save as disclosed in this Section 6.8 titled "Proposed Executive Officers" of the HanKore Letter, as at the Latest Practicable Date, none of the Proposed Executive Officers is related to each other or any of the Enlarged Group Directors or Substantial Shareholders of the Enlarged Group.

Present and Past Directorships of the Proposed Executive Officers

The list of past and present directorships of the Proposed Executive Officers for the past five years preceding the Latest Practicable Date, save for that of Wang Tianyi and An Xuesong, which are disclosed in Section 6.7 above, is set out below:

Name	Present Directorships	Past Directorships
Lin Zhe Ying	**Companies within the Enlarged Group** HanKore Environment Tech Group Limited HanKore International Pte Ltd	**Companies within the Enlarged Group** None
	Other Companies Ancient Jade Capital Management Co., Ltd. CY Foundation Group Limited SF Holding (Group) Co., Ltd. Skyard Investments Limited	**Other Companies** None
Yau Wing-Yiu	**Companies within the Enlarged Group** Bio-Treat Resources Limited HanKore Environment Tech Group Limited True Global Limited	**Companies within the Enlarged Group** None
	Other Companies ARM Pacific Capital Ltd. ARM Pacific GP Holdings Ltd. ARM Pacific Investment Holdings Ltd. Bright Joy Ventures Ltd. Carry Wealth Holdings Limited	**Other Companies** Alpha Fortune Management Ltd. China Strategic Holdings Limited

Arrangement or Understanding

As at the Latest Practicable Date, none of the Proposed Executive Officers has any arrangements or understanding with any of the Substantial Shareholders, customers, suppliers or other person of the Enlarged Group pursuant to which such persons are or will be appointed.

6.9 Service Agreements

The terms of the service agreements proposed to be entered into between the Enlarged Group, and the Enlarged Group Directors and/or the Proposed New Directors, have yet to be determined. The Enlarged Group will make the appropriate disclosures to Shareholders via an announcement on the SGXNET as and when the service agreements have been entered into.

There is no service contract entered into by the Directors and/or the Proposed New Directors with the Enlarged Group which provide for benefits upon termination of employment. In addition, no service contract which may be entered into by the Directors and/or the Proposed New Directors with the Enlarged Group after Completion will provide for benefits upon termination of employment.

6.10 Remuneration

The compensation paid or payable by the HanKore Group to the Enlarged Group Directors (including directors' fees) and the Proposed Executive Officers (including salary, bonus, statutory contribution and benefits-in-kind, where applicable) in bands[1] of S$250,000 per annum for services rendered to the HanKore Group in all capacities for FY2013 and FY2014 (being the two most recent completed financial years) and the estimated compensation expected to be paid for the whole of FY2015 (such estimate excluding bonuses and any profit sharing plan) were or are as follows:

Name	FY2013 (1 July 2012 to 30 June 2013)	FY2014 (1 July 2013 to 30 June 2014)	FY2015 (1 July 2014 to 30 June 2015) (Estimated)
Enlarged Group Directors			
Chen Dawei, David	Band C	Band F[3]	—[4]
Lim Yu Neng, Paul	Band A	Band B[3]	—[4]
Lee Kheng Joo	Band A	Band A[3]	—[4]
Cheng Fong Yee, Fonda	Band A	Band A[3]	—[4]
Chen Xiaoping	—[2]	—[2]	—[4]
Wang Tianyi	—[2]	—[2]	—[4]
An Xuesong	—[2]	—[2]	—[4]
Yang Zhiqiang	—[2]	—[2]	—[4]

Name	FY2013 (1 July 2012 to 30 June 2013)	FY2014 (1 July 2013 to 30 June 2014)	FY2015 (1 July 2014 to 30 June 2015) (Estimated)
Proposed Executive Officers			
Lin Zhe Ying	Band A	Band D(3)	—(4)
Yau Wing-Yiu	Band B	Band E(3)	—(4)
Wang Tianyi	—(2)	—(2)	—(4)
An Xuesong	—(2)	—(2)	—(4)

Notes:

(1) "Band A" refers to remuneration of up to S$250,000 per annum. "Band B" refers to remuneration from S$250,001 to S$500,000 per annum. "Band C" refers to remuneration from S$500,001 to S$750,000 per annum. "Band D" refers to remuneration from S$750,001 to S$1,000,000 per annum. "Band E" refers to remuneration from S$1,000,001 to S$1,250,000 per annum. "Band F" refers to remuneration from S$2,000,001 to S$2,250,000 per annum.

(2) Chen Xiaoping, Wang Tianyi, An Xuesong and Yang Zhiqiang were not employed by the HanKore Group during the relevant periods.

(3) The compensation paid by the HanKore Group to Chen Dawei, David, Lin Zhe Ying, Yau Wing-Yiu, Lim Yu Neng, Paul, Lee Kheng Joo and Cheng Fong Yee, Fonda for FY2014 includes share options that were issued under the share option scheme as disclosed in Section 6.11 titled "Share Options Scheme" of the HanKore Letter.

(4) As disclosed in Section 6.9 titled "Service Agreements" of the HanKore Letter, the terms of the service agreements proposed to be entered into between the Enlarged Group, and the Enlarged Group Directors and/or the Proposed New Directors have yet to be determined.

The compensation paid or payable by the Target Group to the Enlarged Group Directors (including directors' fees) and the Proposed Executive Officers (including salary, bonus, statutory contribution and benefits-in-kind, where applicable) in bands[(1)] of S$250,000 per annum for services rendered to the Target Group in all capacities for FY2012 and FY2013 (being the two most recent completed financial years) and the estimated compensation expected to be paid for the whole of FY2014 (such estimate excluding bonuses and any profit sharing plan) were or are as follows:

Name	**FY2012 (1 January 2011 to 31 December 2012)**	**FY2013 (1 January 2012 to 31 December 2013)**	**FY2014 (1 January 2013 to 31 December 2014) (Estimated)**
Enlarged Group Directors			
Chen Xiaoping	—[(2)]	—[(2)]	—[(2)]
Wang Tianyi	—[(2)]	—[(2)]	—[(2)]
An Xuesong	—[(2)]	—[(2)]	—[(2)]
Yang Zhiqiang	—[(2)]	—[(2)]	—[(2)]
Chen Dawei, David	—[(3)]	—[(3)]	—[(3)]
Lim Yu Neng, Paul	—[(3)]	—[(3)]	—[(3)]
Lee Kheng Joo	—[(3)]	—[(3)]	—[(3)]
Cheng Fong Yee, Fonda	—[(3)]	—[(3)]	—[(3)]
Proposed Executive Officers			
Lin Zhe Ying	—[(3)]	—[(3)]	—[(3)]
Yau Wing-Yiu	—[(3)]	—[(3)]	—[(3)]
Wang Tianyi	—[(2)]	—[(2)]	—[(2)]
An Xuesong	—[(2)]	—[(2)]	—[(2)]

Notes:

(1) "Band A" refers to remuneration of up to S$250,000 per annum. "Band B" refers to remuneration from S$250,001 to S$500,000 per annum. "Band C" refers to remuneration from S$500,001 to S$750,000 per annum. "Band D" refers to remuneration from S$750,001 to S$1,000,000 per annum. "Band E" refers to remuneration from S$1,000,001 to S$1,250,000 per annum. "Band F" refers to remuneration from S$2,000,001 to S$2,250,000 per annum.

(2) Chen Xiaoping, Wang Tianyi, An Xuesong and Yang Zhiqiang were not or will not be employed by the Target Group during the relevant periods.

(3) Chen Dawei, David, Lim Yu Neng, Paul, Lee Kheng Joo, Cheng Fong Yee, Fonda, Lin Zhe Ying and Yau Wing-Yiu were or will be employed and compensated by the HanKore Group or Enlarged Group (as the case may be) during the relevant periods.

Save for amounts set aside or accrued in respect of mandatory employee funds, no amounts are intended to be set aside or accrued by the Enlarged Group to provide pension, retirement or similar benefits.

As at the Latest Practicable Date, save as disclosed in this Section 6.10 titled "Remuneration" of the HanKore Letter, (i) no portion of the compensation was paid or is to be paid pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement; and (ii) no portion of the compensation was paid or is to be paid in the form of stock options.

As at the Latest Practicable Date, there are 28 option holders of 36,508,617 outstanding options granted under an employee share option scheme of the Company, as disclosed in Section 6.11 titled "Share Options Scheme" of the HanKore Letter.

6.11 Share Options Scheme

Under the terms of the Acquisition Agreement, completion of the Proposed Acquisition is conditional on, *inter alia*, there being no outstanding options or any securities convertible into or ultimately exchangeable or exercisable for any equity securities of any HanKore Group Company. Accordingly, the Company does not intend to issue any new options under the existing share option scheme and intends to terminate the share option scheme in accordance with its terms.

As at the Latest Practicable Date, details of the options granted to the Directors of the Company under an employee share option scheme of the Company are as follows:

Date of grant of options	Person to whom the option was granted	Number of options granted	Number of shares that may be issued in respect of options outstanding as at the Latest Practicable Date	Exercise price per share	Option purchase price (if any)	Exercise period
15 November 2013	Chen Dawei, David	6,211,773	6,211,773	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Yau Wing-Yiu	5,347,467	5,347,467	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Lin Zhe Ying	3,889,067	3,889,067	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Nie Jian Sheng	5,833,600	5,833,600	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Lim Yu Neng, Paul	1,458,400	1,458,400	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Cheng Fong Yee, Fonda	972,266	972,266	S$0.64	S$1.00	16 November 2014 to 15 November 2023
15 November 2013	Lee Kheng Joo	972,266	972,266	S$0.64	S$1.00	16 November 2014 to 15 November 2023

6.12 Material Background Information

Save as disclosed in the last paragraph of this Section 6.12 titled "Material Background Information" of the HanKore Letter, none of the Enlarged Group Directors, Proposed Executive Officers and the Controlling Shareholders of the Target Group has:

(a) at any time, during the last 10 years, an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two (2) years from the date he ceased to be a partner;

(b) at any time, during the last 10 years, an application or a petition under any law of any jurisdiction filed against an entity, not being a partnership, of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two (2) years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;

(c) had any unsatisfied judgments against him;

(d) been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings, including any pending criminal proceedings of which he is aware, for such purpose;

(e) been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings, including any pending criminal proceedings of which he is aware of, for such breach;

(f) at any time, during the last 10 years, judgment entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or has been the subject of any civil proceedings, including any pending civil proceedings of which he is aware, involving an allegation of fraud, misrepresentation or dishonesty on his part;

(g) been convicted, in Singapore or elsewhere, of any offence in connection with the formation or management of any entity or business trust;

(h) been disqualified from acting as a director or an equivalent person of any entity including the trustee of a business trust, or from taking part directly or indirectly in the management of any entity or business trust;

(i) been the subject of any order, judgment or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity;

(j) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:

(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;

(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;

(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or

(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in each case, in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; or

(k) been the subject of any current or past investigation or disciplinary proceedings, nor has been reprimanded or issued any warning, by the MAS or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.

Giant Delight Holdings Limited ("**GDHL**"), a company wholly owned by Chen Dawei, David, was issued a supervisory warning by the MAS on 18 December 2013, in relation to a breach of the Securities and Futures Act. Being a substantial shareholder of the Company, GDHL was in breach of section 136 of the Securities and Futures Act for failing to notify the Company of a change in its interest in the Company's voting shares. Other than this warning, no further actions were taken by the MAS and there were no fines or penalties imposed on GDHL or Chen Dawei, David.

6.13 Corporate Governance

Board Practices

The Company has, since its listing on the Main Board of the SGX-ST in February 2004, put in place and adopted various policies and practices based on the Code of Corporate Governance 2012 (the "**Code of Corporate Governance**") where it is applicable and practical to the HanKore Group in the context of its business and organisation structure.

Upon Completion, it is proposed that the new Board of the Company will remain committed to maintaining a high standard of corporate governance within the Enlarged Group and will exert best efforts to implement the good practices recommended in the Code of Corporate Governance issued by the Corporate Governance Committee on Corporate Governance from time to time.

All Enlarged Group Directors will be appointed to the Board by way of a formal letter of appointment or service agreement setting out the scope of their duties. As disclosed in Section 6.9 titled "Service Agreements" of the HanKore Letter, the terms of the service agreements proposed to be entered into between the Enlarged Group and the Proposed New Directors have yet to be determined. The Enlarged Group will make the appropriate disclosures via an announcement on the SGXNET as and when the service agreements have been entered into.

The new Board will be entrusted with the responsibility of providing leadership to, and supervision of, the Enlarged Group, with a view to protecting shareholders' interests and enhancing long-term shareholders' value.

In particular, the new Board will oversee the business affairs of the Enlarged Group and set overall corporate strategy and direction. It will approve the Enlarged Group's strategic plans, key business initiatives and financial objectives, major investment and divestment and funding proposals. The new Board will also monitor operating and financial performance and oversee the processes for risk management, financial reporting and compliance and evaluating the adequacy of internal controls. It will approve nominations to the Board.

Every Director will be expected, in the course of carrying out his duties, to act in good faith, provide insights and consider at all times, the interests of the Company.

To execute its responsibilities, the new Board will delegate specific functions to various sub-committees (the "**Board Committees**") whose actions will be monitored by the Board. These committees include the Audit Committee, the Nominating Committee and the Remuneration Committee, and each of the Board Committees operates within clearly defined terms of reference and functional procedures, which will be reviewed on a regular basis.

Upon completion of the Proposed Transactions and the appointment of the Enlarged Group Directors, the Audit Committee, the Nominating Committee and the Remuneration Committee will be reconstituted as set out below.

Audit Committee

The existing Audit Committee, comprising Lim Yu Neng, Paul, Lee Kheng Joo and Cheng Fong Yee, Fonda, will continue as the Audit Committee after the completion of the Proposed Transactions. Lim Yu Neng, Paul, the existing Chairman of the Audit Committee, will continue as the Chairman of the Audit Committee after the completion of the Proposed Transactions.

The Audit Committee will meet at least four times every financial year. The principal terms of reference of the Audit Committee are as follows:

(i) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Enlarged Group and any announcements relating to the Enlarged Group's financial performance;

(ii) reviewing and reporting to the Board the adequacy and effectiveness of the Enlarged Group's internal controls, comprising financial, operational, compliance and information technology controls, including procedures for entering into hedging transactions (such review can be carried out internally or with the assistance of any competent third parties);

(iii) reviewing the effectiveness of the Enlarged Group's internal audit function;

(iv) reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;

(v) making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

(vi) reviewing any interested person transactions as defined in the Listing Manual;

(vii) reviewing potential conflicts of interest, if any, including reviewing and considering transactions in which there may be potential conflicts of interests between the Enlarged Group and interested persons and recommend whether those who are in a position of conflict should abstain from participating in any discussions or deliberations of the Board or voting on resolutions of the Board or the Shareholders in relation to such transactions as well as to ensure that proper measures to mitigate such conflicts of interest have been put in place;

(viii) reviewing the rectification measures and internal control measures relating to regulatory issues involving the Enlarged Group's licences/permits/certificates etc;

(ix) reviewing the investments in our customers, suppliers and competitors made by the Enlarged Group Directors, Controlling Shareholders and their respective associates who are involved in management of the Enlarged Group or have shareholding interests in similar or related business of the Enlarged Group and make assessments on whether there are any potential conflicts of interests and ensuring that proper measures to mitigate such conflicts of interests have been put in place;

(x) reviewing the statements to be included in the annual report concerning the adequacy of internal controls, including financial, operational and compliance controls, and risk management systems;

(xi) monitoring the implementation of outstanding internal control recommendations and/or observations highlighted by the external auditors in the course of their audit of the statutory financial statements;

(xii) reviewing whistle-blowing investigations within the Enlarged Group and ensuring appropriate follow-up action, if required;

(xiii) planning and overseeing the implementation of the measures in respect of the legal representatives of the PRC subsidiaries as described in Section 6.13 titled "Corporate Governance — Legal Representative(s)" of the HanKore Letter, including the amendment of the Articles of Association of the PRC subsidiaries;

(xiv) undertaking such other reviews and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and

(xv) generally undertaking such other functions and duties as may be required by statute or the Listing Manual, or by such amendments as may be made thereto from time to time on a quarterly basis.

The Audit Committee will meet with the external auditors and/or internal auditors separately at least once a year without the presence of the management to review the management's level of cooperation and other matters that warrants the Audit Committee's attention.

The Audit Committee will review the independence of the external auditors annually.

In order to facilitate the Audit Committee to discharge its responsibilities, the management of the Enlarged Group shall assist and provide the Audit Committee with access to the information relating to the Enlarged Group.

In the event that a member of the Audit Committee is interested in any matter being considered by the Audit Committee, he will abstain from reviewing and deliberating on that particular transaction or voting on that particular resolution.

Internal Controls

The Board refers to the external audit reports on the financial statements of the HanKore Group for the years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014 and management letter prepared by the external auditors on any material non-compliance or internal control weaknesses. The external auditors of HanKore Group confirmed that during the course of their audit, they did not identify any material weaknesses in the design or operation of the accounting and internal control systems which would have required a change in the opinion expressed in the auditors' report on the consolidated financial statements of the HanKore Group for the years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014. Based on the internal controls established and maintained by the HanKore Group, work performed by the internal and external auditors (to the extent as required by the external auditor to form an opinion of the financial statements), and reviews performed by management, the Board, with the concurrence of the Audit Committee, is of the opinion that the HanKore Group's internal controls, addressing financial, operational and compliance risks are adequate as at the LPD in its current business environment.

In view of the Proposed Acquisition that the Company is undergoing, the Board refers to the external audit reports on the financial statements of the Target Group for the years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014 and the management letter prepared by the external auditors on any material non-compliance or internal control weaknesses. The external auditors of the Target Group confirmed that during the course of their audit, they did not identify any material weaknesses in the design or operation of the accounting and internal control systems which would have required a change in the opinion expressed in the auditors' report on the consolidated financial statements of the Target Group for the years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014. The present board of directors of the Target Company, with the concurrence of the Audit Committee, is of the opinion that the Target Group's internal controls, addressing financial, operational and compliance risks are adequate as at the LPD in its current business environment.

Following the completion of the Proposed Acquisition, the Audit Committee may either: (i) work with the CEIL Group's internal audit team; or (ii) engage an internal auditor, to perform a full internal controls review of the Enlarged Group's internal controls including financial, operational and compliance controls, within 12 months from the Completion, and to carry out an annual internal audit, to satisfy the Audit Committee that the Enlarged Group's internal controls are robust and effective enough to mitigate any significant internal control weaknesses that may arise.

New Nominating Committee

The new Nominating Committee will comprise Lee Kheng Joo, Lim Yu Neng, Paul, and Wang Tianyi. Lee Kheng Joo will be the Chairman of the new Nominating Committee.

The principal terms of reference of the new Nominating Committee are as follows:-

(i) establishing procedures and making recommendations to the new Board on all board appointments and re-nominations with regards to each Director's contribution and performance, his or her attendance at meetings of the new Board or new Board Committees (where applicable), participation, candour and any special contributions;

(ii) reviewing and determining annually whether a Director is independent, bearing in mind the considerations set out in the Code of Corporate Governance;

(iii) deciding whether or not each Director is able to and has adequately carried out his duties as a Director of the company, taking into consideration the Director's number of listed company board representations and other principal commitments;

(iv) developing a process for evaluation of the performance of the Board, Board Committees and Directors; and

(v) reviewing of training and professional development programmes for the Board.

In considering the re-appointment of a Director, the new Nominating Committee will evaluate such Director's contribution and performance, such as his or her attendance at meetings of the Board or Board Committees, where applicable, participation, candour and any special contributions.

The new Nominating Committee will be responsible for the re-nomination of the Directors. The new Nominating Committee may recommend the appointment of any other qualified person as a Director to fill a vacancy or as an addition to the Board. Bye-law 85 of the Company's Bye-laws provides that such Director so appointed shall hold office until the next AGM while Bye-law 86 requires each Director to retire at least once every three (3) years and such Directors shall be eligible for re-election. In making recommendation for the purpose of re-nomination of the Directors, the new Nominating Committee will take into consideration their overall contribution and performance.

Each member of the new Nominating Committee shall abstain from voting on any resolutions, making any recommendations and/or participating in any deliberations of the new Nominating Committee in respect of the assessment of his performance or re-nomination as a director.

New Remuneration Committee

The new Remuneration Committee will comprise Cheng Fong Yee, Fonda, Lee Kheng Joo and Chen Xiaoping. Cheng Fong Yee, Fonda will be the Chairman of the new Remuneration Committee.

The principal terms of reference of the new Remuneration Committee are as follows:

(i) recommending to the Board, in consultation with the Chairman of the Board, for endorsement, a remuneration policy framework and guidelines for remuneration of the Directors and senior management of the Enlarged Group;

(ii) recommending specific remuneration packages for each of the Directors and the senior management (including, but not limited to, Directors' and senior management's fees, salaries, allowances, bonuses and benefits-in-kind);

(iii) reviewing the obligations of the Enlarged Group arising in the event of termination of the service contracts of the Enlarged Group Directors and key management personnel; and

(iv) administering the share incentive plans of the Enlarged Group, if any.

Under the remuneration policy framework developed by the new Remuneration Committee, the new Remuneration Committee will strive to align the level and structure of remuneration with the long-term interest and risk policies of the Enlarged Group, and to attract, retain and motivate (a) the Directors to provide good stewardship of the Enlarged Group; and (b) senior management to successfully manage the Enlarged Group.

Each member of the new Remuneration Committee will abstain from voting on any resolution, participating in any deliberation of the new Remuneration Committee and making any recommendation in respect of his remuneration package or that of employees related to him (if any).

The new Remuneration Committee will be provided with access to expert professional advice on remuneration matters as and when necessary. The expenses of such services shall be borne by the Company.

Term of Office

Bye-law 85 of the Company's Bye-laws provides that such Director so appointed shall hold office until the next AGM while Bye-law 86 requires each Director to retire at least once every three (3) years and such Directors shall be eligible for re-election. In each case, such Directors are eligible to seek re-election through ordinary resolution.

Legal Representative(s)

PRC Subsidiaries of the Company

Legal Representative	PRC Subsidiaries
Li Shi Hua	Beijing Bio-Treat Water Co., Ltd. Binzhou Jin Di Co., Ltd. Jiangsu Tongyong Environment Engineering Co., Ltd Nanjing Jin Huan Water Development Co., Ltd. Nanjing Golden Idea Water Development Co., Ltd. Xianyang Bai Sheng Shui Purifying Co., Ltd. Yangzhou HanKore Water Development Co., Ltd.
Cui Yuan	Beijing Hankelin Environmental Technology Co., Ltd. Kunshan Gang Dong Wastewater Treatment Co., Ltd. Lianyungang King Fortune Water Co., Ltd. Sanmenxia HanKore Co., Ltd. Suzhou Jin Di Water Co., Ltd. Tianjin Hanquan Environment Technology Limited
Wang Wei Dong	Beijing Hankesen Environmental Technology Co., Ltd.

The Company's legal adviser on PRC law, Global Law Office, has confirmed the following:

- Li Shi Hua, Cui Yuan and Wang Wei Dong, being the legal representatives of the respective subsidiaries incorporated in the PRC (the "**PRC Subsidiaries**") of the Company, have the following powers in accordance with PRC law:

  (a) to act as the representative of the respective PRC Subsidiaries of the Company;

  (b) to execute contracts on behalf of the respective PRC Subsidiaries of the Company; and

  (c) to call and hold the board meeting of the respective PRC Subsidiaries of the Company.

- Li Shi Hua, Cui Yuan and Wang Wei Dong, being the legal representatives of the PRC Subsidiaries of the Company, have the following responsibilities in accordance with the Articles of Association of the respective PRC subsidiaries of the Company, namely Beijing Hankelin Environmental Technology Co., Ltd., Nanjing Jin Huan Water Development Co., Ltd., Lianyungang King Fortune Water Co., Ltd. and Suzhou Jin Di Water Co., Ltd.:

  (a) in case of resignation or removal, to return the respective seals to the respective PRC Subsidiaries of the Company if he has kept it; and

  (b) in case of resignation or removal, to cooperate in the procedures of registering a new legal representative and sign relevant documents.

  Articles of Association of the other PRC Subsidiaries of the Company will be amended to reflect the same.

The Audit Committee has noted that there are risks in relation to the appointment of the legal representative in the Company's PRC Subsidiaries, including concentration of authority and impediments to their removal. After having reviewed such risks and noting that the Articles of Association of each of the PRC Subsidiaries of the Company grant the Company the power to, *inter alia*, remove the legal representative of the relevant PRC subsidiary, the Audit Committee is of the view that there are adequate processes and procedures in place to mitigate the risks in relation to the appointment of the legal representative of the PRC Subsidiaries of the Company.

In respect of the HanKore Group, there is a risk that the Company and/or its PRC Subsidiaries will be held liable should the legal representatives perform any unauthorised actions on its behalf. In this regard, the following measures have or will be implemented in respect of any change of the legal representatives of the PRC Subsidiaries of the Company:

(i) under the Articles of Association of the PRC Subsidiaries of the Company, each of the legal representatives is also the chairman of the board of directors of such PRC Subsidiaries and the respective controlling shareholders of the PRC Subsidiaries have the right to appoint or dismiss the chairman of the board of directors;

(ii) an internal control system to ensure that there is proper authorisation as to disbursements and delegation of authority;

(iii) safeguarding controls over all the company seals and cheque books; and

(iv) ensuring segregation of duties in the cash management process including receipts and disbursements.

Based on the above, the directors of the Company believe that the above measures are reasonably sufficient to safeguard against any of the legal representatives of the Company undertaking any unauthorised actions on behalf of the Company and/or its PRC

Subsidiaries and the directors of the Company are of the opinion that the processes and procedures to be put in place will be adequate to mitigate the risks in relation to the appointment and removal of the legal representative of the Company and/or its PRC Subsidiaries.

The Target Group

Under the laws and regulations of the PRC, the chairman of the board of directors, an executive director or the general manager of a company may be appointed as the legal representative of the company in accordance with its Articles of Association. The legal representative will have the powers to represent, exercise rights on behalf of, and enter into binding obligations on behalf of, the company. The Articles of Association of all the PRC Subsidiaries of the Target Company provide that the chairman of the board of directors shall be the legal representative of the company.

Wang Tianyi, being the chairman of the board of directors of all the PRC Subsidiaries of the Target Company, is the legal representative of each of the PRC Subsidiaries of the Target Company. As such, the powers and responsibilities of each legal representative are similar to what is stipulated under the Articles of Association of each of the PRC Subsidiaries of the Target Company to be the powers and responsibilities of the chairman of the board of directors. Under the applicable PRC laws, corporate transactions may be entered into solely by a legal representative with or without the company's corporate seal.

According to the Articles of Association of the PRC Subsidiaries of the Target Company, the chairman who also serves as the legal representative of the relevant PRC Subsidiary of the Target Company is responsible for (where applicable):

(i) calling for meetings of the board of directors of the relevant PRC Subsidiary;

(ii) in respect of certain PRC Subsidiaries, attending to material issues of the relevant PRC Subsidiary;

(iii) in respect of certain PRC Subsidiaries, executing and implementing board resolutions; and

(iv) such other responsibilities as may be required pursuant to the Articles of Association of the relevant PRC Subsidiary.

Under the laws and regulations of the PRC, the legal representative may be appointed or removed by the board of directors or shareholders. In addition, the appointment or removal of the legal representative is subject to registration with the relevant PRC authorities. Such registration requires the submission of the relevant appointment and removal document and an application form duly executed by the original or proposed new legal representative.

In respect of the Target Group, there is a risk that the Target Company and/or its PRC Subsidiaries will be held liable should its legal representative perform any unauthorised actions on its behalf. In this regard, the following measures have or will be implemented in respect of any change of the legal representatives of the PRC Subsidiaries of the Target Company:

(i) under the Articles of Association of the PRC Subsidiaries, each of the legal representatives must also be the chairman of the board of directors of such PRC Subsidiaries and the respective controlling shareholders of the PRC Subsidiaries have the right to appoint or dismiss the chairman of the board of directors;

(ii) an internal control system to ensure that there is proper authorisation as to disbursements and delegation of authority;

(iii) safeguarding controls over all the company seals and cheque books; and

(iv) ensuring segregation of duties in the cash management process including receipts and disbursements.

Based on the above, the directors of the Target Company believe that the above measures are reasonably sufficient to safeguard against any of the legal representatives of the Target Group undertaking any unauthorised actions on behalf of the Target Company and/or its PRC Subsidiaries and the directors of the Target Company are of the opinion that the processes and procedures to be put in place will be adequate to mitigate the risks in relation to the appointment and removal of the legal representative of the Target Company and/or its PRC Subsidiaries.

***Suitability of the Enlarged Group's* CFO**

Yau Wing-Yiu, who is the existing CFO of the Company, will continue as the CFO of the Company after the completion of the Proposed Transactions.

The Audit Committee has considered several factors, including the qualifications and working experience of Yau Wing-Yiu, the accounting reporting structure, the team that supports and reports to him and the interactions the Audit Committee has had with him. After making all reasonable enquiries, and to the best of their knowledge and belief, nothing has come to the attention of the members of the Audit Committee to cause them to believe that Yau Wing-Yiu, the proposed CFO of the Enlarged Group does not have the competence, character and integrity expected of a CFO.

6.14 Employees of the Enlarged Group

HanKore Group

As at 30 June 2014, the HanKore Group had 433 full-time employees. The HanKore Group does not employ a significant number of temporary, contract or part-time staff. The HanKore Group's employees are not unionised. There has not been any incidence of work stoppages or labour disputes that affected the HanKore Group's business. Accordingly, the HanKore Group considers its relationship with its respective employees to be good.

The following table sets out a functional breakdown of the HanKore Group's employees as at 30 June 2012, 30 June 2013 and 30 June 2014:

Function	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
Senior Management	7	9	9
Board's Office and Strategy Planning	6	3	6
Administration and Human Resource(1)	80	55	66
Engineering and Procurement	14	15	25
Finance	33	35	39
Investment and Legal Affairs	8	7	6
Water plant operations and related operations	261	248	282
Total	409	372	433

Note:

(1) The number of employees in Administration and Human Resource decreased from 80 to 55 from 30 June 2012 to 30 June 2013 due to an internal streamlining of the number of employees and a reorganisation of its employee structure. It subsequently increased to 66 as at 30 June 2014 due to the increased manpower required pursuant to the acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd. and the increase in manpower of Sanmenxia HanKore Co., Ltd.

The following table sets out a geographical breakdown of the HanKore Group's employees as at 30 June 2012, 30 June 2013 and 30 June 2014:

Country	As at 30 June 2012	As at 30 June 2013	As at 30 June 2014
PRC	409	371	426
Others (Hong Kong and Singapore)	—	1	7
Total	409	372	433

Target Group

As disclosed in Section 3.13 titled "Employees" of the Target Letter, as at 31 December 2013, the Target Group has 567 full-time employees. The Target Group does not employ a significant number of temporary, contract or part-time staff. The Target Group's employees are not unionised. As disclosed in Section 3.13 titled "Employees" of the Target Letter, to the best knowledge of the directors of the Target Group, there have been no employee disputes that have materially affected the Target Group's business and operations.

The functional distribution of average numbers of full-time employees of the Target Group as at 31 December 2011, 31 December 2012 and 31 December 2013 is as follows:

Function	As at 31 December 2011	As at 31 December 2012	As at December 2013
Management	22	23	23
Operation	477	491	479
Finance	21	22	21
Administration	56	56	43
HR	3	3	1
Total	579	595	567

6.15 Related Employees

As at the Latest Practicable Date, there are no family relationships between the employees of the Enlarged Group upon whose work the Enlarged Group is dependent on, and the Proposed Executive Officers, Enlarged Group Directors or Substantial Shareholders of the Enlarged Group.

6.16 Interested Person Transactions of the HanKore Group

This section sets out the material interested person transactions entered into by the HanKore Group for FY2012, FY2013, FY2014 and the period from 1 July 2014 to the Latest Practicable Date (collectively, the "**Period Under Review**").

Past Interested Person Transactions

There have been no past transactions between our Group and our interested persons which are material in the context of the Proposed Acquisition, for the Period Under Review.

Present and Ongoing Interested Person Transactions

Personal guarantee for Suzhou Jin Di Water Co., Ltd.

Suzhou Jin Di Water Co., Ltd, a wholly-owned subsidiary of the Company, entered into a financial leasing contract with China Huarong Financial Leasing Co., Ltd. (华融金融租赁股份有限公司) on 31 May 2012 (the "**FL Contract**"). Chen Dawei, David, and his wife are parties to the FL Contract as guarantors. Both Chen Dawei, David and his wife did not receive any consideration (monetary or otherwise) for the provision of the above guarantees. As such, the above guarantee arrangement was not carried out on an arm's length basis but is not prejudicial to the interests of the HanKore Group.

The aggregate amount in respect of the FL Contract was RMB60.0 million and the interest applicable is 6.65% per annum. The largest amount outstanding for the Period Under Review is approximately RMB70.8 million (including interest). As at the Latest Practicable Date, the amount outstanding is approximately RMB39.0 million (including interest). The amount outstanding is intended to be fully repaid by June 2017.

Guidelines and Review Procedures for Ongoing and Future Interested Person Transactions

Our Audit Committee will review and approve all interested person transactions to ensure that they are on normal commercial terms and on an arm's length basis, that is, the transactions are transacted on terms and prices not more favourable to the Interested Persons than if they were transacted with a third party, and are not prejudicial to the interests of our Group and our Shareholders.

To ensure that all future interested person transactions are carried out on normal commercial terms and will not be prejudicial to the interests of our Group or our Shareholders, the following procedures will be implemented by our Group:

(a) when purchasing any products or engaging any services from an Interested Person, two other quotations from non-Interested Persons will be obtained for comparison to ensure that the interests of our Group and Shareholders are not disadvantaged. The purchase price or fee for services shall not be higher than the most competitive price or fee of the two other quotations from non-Interested Persons. In determining the most competitive price or fee, all pertinent factors including, but not limited to, quality, requirements, specifications, delivery time and track record will be taken into consideration;

(b) in the case of renting properties from or to an Interested Person, the Board shall take appropriate steps to ensure that the rent is commensurate with the prevailing market rates, including adopting measures such as making relevant inquiries with landlords of similar properties and/or obtaining necessary reports or reviews published by property agents (including an independent valuation report by a property valuer, where considered appropriate). The amount payable shall be based on the most competitive market rental rate of similar property in terms of size, suitability for purpose and location, based on the results of the relevant inquiries;

(c) where it is not possible to compare against the terms of other transactions with unrelated third parties and given that the products or services may be purchased only from an Interested Person, the interested person transaction will be approved by either our CEO, if he has no interest in the transaction, or failing which, the Audit Committee, in accordance with our usual business practices and policies. In determining the transaction price payable to the Interested Person for such products and/or service, factors including, but not limited to, quantity, requirements and specifications will be taken into account; and

(d) in addition, we shall monitor all interested person transactions entered into by us and categorise these transactions as follows:

    (i) a Category 1 interested person transaction is one where the value thereof is equal or in excess of 3.0% of the latest audited NTA of our Group; and

    (ii) a Category 2 interested person transaction is one where the value thereof is below 3.0% of the latest audited NTA of our Group.

All Category 1 interested person transactions must be approved by our Audit Committee prior to entry whereas Category 2 interested person transactions need not be approved by our Audit Committee prior to entry but shall be reviewed on a periodic basis by our Audit Committee.

Our Audit Committee will review all interested person transactions, if any, on a periodic basis to ensure that they are carried out on an arm's length basis and in accordance with the procedures outlined above, it will take into account all relevant non-quantitative factors. In the event that a member of our Audit Committee is interested in any such transaction, he will abstain from participating in the review and approval process in relation to that particular transaction.

We shall prepare all the relevant information to assist the Audit Committee in its review and will keep a register recording all interested person transactions. The register shall also record the basis for entry into the transactions, including the quotations and other evidence obtained to support such basis.

In addition, the Audit Committee and the Board will also ensure that all disclosure, approval and other requirements on interested person transactions, including those required by prevailing legislation, the Listing Manual (in particular, Chapter 9) and relevant accounting standards, are complied with. The annual internal audit plan shall incorporate a review of all interested person transactions entered into. Such transactions will also be subject to the approval of our Shareholders if required by the Listing Manual. We will also endeavour to comply with the recommendations set out in the Code of Corporate Governance.

These internal audit reports will be reviewed by the Audit Committee to ascertain whether the guidelines and procedures established to monitor interested person transactions have been complied with. The Audit Committee shall also review from time to time such guidelines and procedures to determine if they are adequate and/or commercially practicable in ensuring that interested person transactions are conducted on normal commercial terms, on an arm's length basis and do not prejudice our interests and the interests of our Shareholders. Further, if during these periodic reviews by the Audit Committee, the Audit Committee is of the opinion that the guidelines and procedures as stated above are not sufficient to ensure that interested person transactions will be on normal commercial terms, on an arm's length basis and not prejudicial to our interests and the interests of our Shareholders, the Audit Committee will adopt such new guidelines and review procedures for future interested person transactions as may be appropriate.

Disclosure will be made in our annual report of the aggregate value of interested person transactions during the relevant financial year under review.

6.17 Potential Conflict of Interests

In general, a conflict of interests arises when any of the Enlarged Group Directors, Controlling Shareholders or their respective Associates is carrying on or has any interest in any other corporation carrying on the same business or dealing in similar products as the Enlarged Group.

Save as disclosed in Section 6.16 titled "Interested Person Transactions of the HanKore Group" of the HanKore Letter, Section 6 titled "Interested Person Transactions" and Section 7 titled "Conflicts of Interest" of the Target Letter, none of the Enlarged Group Directors, Controlling Shareholders, and/or their respective Associates has any material interest, whether direct or indirect, in:

(i) any material transactions to which the Enlarged Group was or is a party;

(ii) any corporation which carries on the same business or deals in similar products as the existing business of the Enlarged Group; and

(iii) any corporation that is the Enlarged Group's customer or supplier of goods or services.

6.18 Prospects, Trend Information, Strategy and Future Plans

Prospects

The Enlarged Group Directors and the Proposed Executive Officers believe that the water and wastewater treatment industry in the PRC offers good potential, driven primarily by the following factors:

Serious water pollution problem and water scarcity

As the most populous country in the world with approximately 1.3 billion people, the demand for water in the PRC is insatiable. As water is a finite resource, it is becoming increasingly scarce in the PRC due to the aggravating pollution problems brought about by rapid economic progression, industrialization and urbanization. The various recent spates of water contamination accidents in the PRC have further worsened water pollution problems. In response to the water pollution situation, the country's environmental bodies are taking urgent steps to control water pollution and ensure the safety of drinking water. Government initiatives to rein in water pollution and water shortage will give rise to tremendous potential for the water and wastewater treatment industry in the PRC.

Government focus on municipal and industrial water and wastewater treatment

The PRC government has indicated that there will be significant investment in the wastewater treatment sector in its 12th Five-Year Plan[(3)]. The 12th Five-Year Plan of China's Municipal Wastewater Treatment and Recycling Facilities Construction (the "**Wastewater Plan**"), announced by the State Council General Office in April 2012,

[(3)] Source: The 12th Five-Year Plan of China's Municipal Wastewater Treatment and Recycling Facilities Construction published by the State Council General Office on 4 May 2012 (http://www.gov.cn/zwgk/2012-05/04/content_2129670.htm). The State Council General Office has not consented to the inclusion of the information quoted in this section, and is thereby not liable for the inclusion of these information extracted from its website. While reasonable actions have been taken to ensure that the information from the State Council General Office's website is reproduced in its proper form and context, and that the information has been extracted accurately and fairly from such website, there has been no independent review of the information contained in that website or verification of the accuracy of the contents of the relevant information.

provides key tasks for urban wastewater treatment, including comprehensively enhancing wastewater treatment capacity, accelerating the upgrade of wastewater treatment plants, strengthening the construction of sludge treatment and disposal facilities, promoting the use of recycled water and strengthening the management of facility operations. The PRC government plans to invest an aggregate amount of approximately RMB430.0 billion in wastewater treatment, recycling and reuse, including RMB427.1 billion in the construction of wastewater treatment infrastructure and RMB2.7 billion in improving management of treatment facilities. Investment in infrastructure includes RMB244.3 billion for the improvement and construction of new pipe networks, RMB104.0 billion for the construction of new municipal wastewater treatment facilities, RMB13.7 billion for the upgrade of municipal wastewater treatment plants, RMB34.7 billion for sludge treatment and disposal and RMB30.4 billion for the construction of wastewater recycling facilities.

More stringent environmental standards and greater legislative enforcement

The overall municipal wastewater treatment rate in cities reached 82.3% by the end of the 11th Five-Year Plan period, whereas the treatment rate in counties was 60.1%. According to Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918) effective since July 2003, the highest standard for treated wastewater is Class I Standard A, followed by Class I Standard B and below. With possible upgrade of discharge standard of pollutants for municipal wastewater treatment plants from Class I Standard B or lower to Class I Standard A, the upgrading and renovation of existing wastewater treatment plants is predicted to be a major driver of the industry. Under the Wastewater Plan, China's municipal wastewater treatment rate in urban areas will reach approximately 85.0% in 2015. Compared to large-sized cities, the total municipal wastewater treatment capacity of counties is expected to expand by about 50.0% during the 12th Five-Year Plan period. The State Council aims to raise the wastewater treatment ratio in counties to over 70.0% by 2015[(4)].

Trend Information

Barring unforeseen circumstances, the Enlarged Group Directors and Proposed Executive Officers are of the view that revenue from the Enlarged Group's wastewater treatment projects will increase in the current financial year. For this current financial year, the Enlarged Group Directors and the Proposed Executive Officers expect the cost of sales of the Enlarged Group to increase in tandem with its revenue.

Due to the nature of the Enlarged Group's business and as a matter of industry practice, the Enlarged Group does not maintain an order book.

Save as disclosed in this Section 6.18 titled "Prospects, Trend Information, Strategy and Future Plans" of the HanKore Letter, and barring any unforeseen circumstances, the

[(4)] Source: The 12th Five-Year Plan of China's Municipal Wastewater Treatment and Recycling Facilities Construction published by the State Council General Office on 4 May 2012 (http://www.gov.cn/zwgk/2012-05/04/content_2129670.htm). The State Council General Office has not consented to the inclusion of the information quoted in this section, and is thereby not liable for the inclusion of these information extracted from its website. While reasonable actions have been taken to ensure that the information from the State Council General Office's website is reproduced in its proper form and context, and that the information has been extracted accurately and fairly from such website, there has been no independent review of the information contained in that website or verification of the accuracy of the contents of the relevant information.

Enlarged Group Directors and the Proposed Executive Officers are not aware of any other known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net sales or revenue, profitability, liquidity or capital resources, or that would cause financial information disclosed in this Prospectus to be not necessarily indicative of the Enlarged Group's future operating results or financial condition.

Strategy and Future Plans

The Enlarged Group seeks to enhance shareholder value by maintaining its position as a leading wastewater treatment service provider in China. The strategies that the Enlarged Group have adopted to attain this goal include the following principal elements:

Continue to solidify the Enlarged Group's leading position in the industry by expanding its existing project portfolio and extending its geographic footprint

The Enlarged Group intends to continue to focus on providing integrated, customized and high-quality wastewater treatment services and expand its operations organically to increase its recurring earnings stream through its service concession arrangement projects. The Enlarged Group plans to utilize its existing strong track record and technical capabilities to expand its business. The Enlarged Group intends to continue to secure additional BOT, BOO, TOT and BT projects in cities where it has existing projects and in nearby cities, leveraging on its familiarity with the region, the participants in the local market and our brand recognition. The Enlarged Group Directors and the Proposed Executive Officers believe that this strategy has enabled the Enlarged Group to realize economies of scale in a particular region. The Enlarged Group Directors and the Proposed Executive Officers also believe that the relationships the Enlarged Group has developed with its customers will position the Enlarged Group to win expansion or upgrade projects in regions where it currently operates.

The Enlarged Group also intends to expand its business by continuing to grow its geographic footprint, focusing on potential opportunities in developing areas in China which meet its stringent project selection criteria and offer attractive returns under BOT, BOO, TOT and BT project models. Furthermore, given recent enhancements to environmental standards in China, the PRC government plans to invest in wastewater treatment facilities. The Enlarged Group has extensive experience in providing wastewater treatment and the Enlarged Group Directors and the Proposed Executive Officers believe both the Enlarged Group's strong market position and wastewater treatment expertise position it well to capitalize on the strong growth opportunities in its industry. The Enlarged Group will continue to increase its wastewater treatment capacity with the aspiration of becoming a world-leading integrated water environmental service provider.

Continue to pursue selective business acquisition and strategic alliance opportunities

The Enlarged Group intends to continue to complement its organic growth by pursuing a disciplined and targeted acquisition strategy to strengthen its market position and enhance competitiveness. The Enlarged Group will focus on opportunities with potential to increase its aggregate wastewater treatment capacity, and give it access to new markets and customer relationships. The Enlarged Group believes that its enhanced industry profile following the Proposed Acquisition will help it identify and engage other potential acquisition targets. The Enlarged Group believes it is well positioned to quickly implement its systematic project management approach and effectively integrate companies it acquires in the future to enhance its overall operational efficiency. The Enlarged Group will continue to focus on acquisitions and strategic alliance opportunities which offer attractive rates of return, sound risk profiles as well as opportunities for improvement in efficiency. The Enlarged Group will carefully consider and evaluate each potential acquisition or alliance on its merits to ensure that its existing business platform will derive appropriate benefits.

Continue to strengthen the Enlarged Group's technical capabilities and project management to further improve its operational efficiency

The Enlarged Group has been able to offer customized cost-effective solutions to its customers and this is attributable to its continued commitment to the development of its technical capabilities, as this is an important part of its strategy to strengthen the Enlarged Group's leading position in the wastewater treatment industry. The Enlarged Group intends to continue to leverage its technical expertise and broad experience to develop practical, customized project designs and deliver effective wastewater treatment solutions to its customers.

The Enlarged Group intends to continue to collect and analyze data regarding the operation of its projects with a view to continually improving the efficiency and profitability of its operations. The Enlarged Group also seeks to strengthen its monitoring capability of pollutant levels in the wastewater it treats during its treatment process and to improve treated water quality standards in a more cost-effective manner. Furthermore, the Enlarged Group seeks to increase oversight of the implementation of its project cost budgets by its audit and supervision personnel to increase its rates of return. In addition, the Enlarged Group intends to analyze project performance to identify opportunities to enhance its project cost budgeting.

Selectively expand into other business ancillary to wastewater treatment to become a large-scale integrated water environmental service provider

Leveraging its experience and profile in the wastewater treatment industry, the Enlarged Group intends to expand its operations into other business activities that are ancillary to wastewater treatment, such as tap water supply, reusable water, seawater desalination and comprehensive water environmental treatment. The Enlarged Group has already begun its entry into the reusable water industry through several smaller scale projects with a view toward further expansion. The alarming pollution problems, water contamination accidents and public awareness of the severity of pollution faced by the PRC, have spurred the government to look closely at tackling the environmental problems faced by the nation. More stringent environmental standards and greater legislative enforcement will spur capital expenditure on water environmental treatment and increase demand for the industry. To capitalize on opportunities offered by such development, we are in the process of conducting research on the provision of various water environmental treatment services, including, among others, the qualifications and requirements applicable to both entities and personnel that engage in the provision of such services. The Enlarged Group believes a better understanding of the applicable rules and regulations will be the first step in helping it expand into the other water environmental business. In addition, the Enlarged Group has also started to conduct market research and competitive landscape analysis on the water environmental treatment. Furthermore, the Enlarged Group Directors and the Proposed Executive Officers believe providing other water environmental treatment will add value to the Enlarged Group's existing services and diversify its revenue streams from selected wastewater treatment projects, and believes the Enlarged Group will be able to capitalize on its project management experience and technical expertise to adapt its processes to such new business.

As at the Latest Practicable Date, the Enlarged Group is in the process of planning its expansion into other water environmental treatment services but have not yet finalized the details of such plans.

Continue to strengthen the Enlarged Group's talent base through enhanced recruiting and training programs

The Enlarged Group Directors and the Proposed Executive Officers believe our ability to continue to recruit and retain capable and motivated managerial, technical and other employees is critical to the success of the Enlarged Group. As the Enlarged Group's managerial, technical and other employees manage the projects of the Enlarged Group and interact with its contractors and customers on a regular basis, they are vital to maintaining the high-quality and consistency of the Enlarged Group's service offering and its reputation in the industry. The Enlarged Group, therefore, aims to recruit quality talent in China. In addition, the Enlarged Group seeks to continue to develop and incentivize its talent base by encouraging and acknowledging the contributions of all of its employees and developing leadership qualities while working on many projects. The Enlarged Group also encourages its personnel to continue developing their substantive skills through continuing education programs.

6.19 Dividend Policy

The Company has not distributed any dividends in FY2012, FY2013 and FY2014 respectively. The Company currently does not have a formal dividend policy. The Company in general meeting may, subject to the Bye-laws of the Company and in accordance with the Companies Act 1981 of Bermuda, declare a dividend or such other distribution to be paid to the shareholders but no dividend or distribution shall be declared by the Company in general meeting in excess of the amount recommended by the Board. In addition, the Company shall not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the Company's assets would thereby be less than its liabilities.

The Target Company has not distributed any dividends in FY2011, FY2012 and FY2013, respectively. The Target Company currently does not have a dividend policy.

There can be no assurance that dividends will be paid in the future or on the amount or timing of any dividends that may be paid in the future. The declaration and payment of any future dividends will depend upon factors such as operating results, financial position, cash requirements, expansion plans as well as any other factors deemed relevant by the new Board.

The Enlarged Group may, by ordinary resolution of the Shareholders at a general meeting, declare dividends but the amount of such dividends shall not exceed the amount recommended by the new Board. The new Board may also declare interim dividends without seeking Shareholders' approval.

Shareholders and potential investors should note that all the foregoing statements are statements of the intention of the Board and shall not constitute legally binding statements in respect of future dividends which may be subject to the sole and absolute discretion of the Enlarged Group Directors. No inference should or can be made from any of the foregoing statements as to actual future profitability of the Enlarged Group or the ability of the Enlarged Group to pay dividends in the future.

6.20 Exchange Control

Please refer to Appendix G titled "Taxation and Exchange Controls" to this Circular for more information on exchange controls in Bermuda, British Virgin Islands, Singapore and the PRC.

7. SELECTED FINANCIAL INFORMATION

The following selected financial information of the Enlarged Group, the HanKore Group and the Target Group should be read in conjunction with the full text of this Circular, including:

(a) Section 8 titled "Management's Discussion and Analysis of Results of Operations and Financial Position of the Enlarged Group" of the HanKore Letter;

(b) Appendix H titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Financial Years Ended 31 December 2011, 2012 and 2013" to this Circular;

(c) Appendix I titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Six Months Ended 30 June 2014" to this Circular;

(d) Appendix J titled "Audited Consolidated Financial Statements of HanKore Environment Tech Group Limited and its Subsidiaries for the Financial Years Ended 31 December 2011, 2012 and 2013 and the Six Months Ended 30 June 2014" to this Circular; and

(e) Appendix K titled "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular.

The statutory financial year-end of HanKore Environment Tech Group Limited is 30 June. As the financial year-end of China Everbright Water Investments Limited is 31 December, the Company had prepared its financial statements for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 for the purpose of this Circular and preparation of the unaudited pro forma consolidated financial information of the Enlarged Group as set out in Appendix K titled "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Circular.

7.1 Pro Forma Financial Information of the Enlarged Group

Unaudited Pro Forma Consolidated Statements of Comprehensive Income for the Financial Years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014

		Year ended 31 December		Six months ended 30 June
	2011	**2012**	**2013**	**2014**
	(HK$'000)	**(HK$'000)**	**(HK$'000)**	**(HK$'000)**
Revenue	1,178,815	1,641,581	2,012,245	715,386
Cost of sales	(659,265)	(1,017,709)	(1,195,125)	(331,940)
Gross profit	519,550	623,872	817,120	383,446
Other income	49,024	28,970	42,565	13,810
Distribution expenses	—	—	(1,661)	(1,086)
Administrative expenses	(224,050)	(111,562)	(153,547)	(78,230)
Other operating expenses	(275,522)	(8,575)	(17,444)	(5,329)
Results from operating activities	69,002	532,705	687,033	312,611
Finance income	6,738	11,883	8,307	1,543
Finance costs	(151,191)	(144,957)	(151,570)	(79,365)
Net finance cost	(144,453)	(133,074)	(143,263)	(77,822)
Profit before tax	(75,451)	399,631	543,770	234,789
Tax expense	(90,904)	(114,698)	(137,169)	(86,801)
(Loss)/Profit for the year/period	(166,355)	284,933	406,601	147,988

	2011 (HK$'000)	Year ended 31 December 2012 (HK$'000)	2013 (HK$'000)	Six months ended 30 June 2014 (HK$'000)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from translation of foreign operations	89,067	23,668	83,148	(82,326)
Foreign currency translation differences realised from disposal of subsidiaries	103	—	—	—
Total other comprehensive income, net of tax	89,170	23,668	83,148	(82,326)
Total comprehensive income	(77,185)	308,601	489,749	65,662
(Loss)/Profit attributable to:				
Owners of the Company	(194,126)	263,377	382,645	135,797
Non-controlling interests	27,771	21,556	23,956	12,191
(Loss)/Profit for the year/period	(166,355)	284,933	406,601	147,988
Total comprehensive income attributable to:				
Owners of the Company	(118,370)	287,543	456,856	61,890
Non-controlling interests	41,185	21,058	32,893	3,772
	(77,185)	308,601	489,749	65,662

Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2013 and 30 June 2014

	31 December 2013 (HK$'000)	**30 June 2014 (HK$'000)**
Non-current assets		
Property, plant and equipment	232,295	222,265
Intangible assets	333,684	328,973
Goodwill	982,145	1,127,193
Land use rights	64,476	61,987
Other receivables	192,629	17,667
Financial receivables	6,292,584	6,200,684
	8,097,813	7,958,769
Current assets		
Inventories	15,218	20,795
Trade and other receivables	448,644	394,224
Financial receivables	663,907	659,608
Tax recoverable	3,741	—
Cash and cash equivalents	720,746	967,758
	1,852,256	2,042,385
Total assets	9,950,069	90,001,154
Equity		
Share capital	2,555,629	2,547,151
Reserves	1,917,722	1,941,417
Retained earnings	1,232,422	1,398,421
Equity attributable to owners of the Company	5,705,773	5,886,989
Non-controlling interests	342,217	345,993
Total equity	6,047,990	6,232,982
Non-current liabilities		
Loans and borrowings	1,528,676	1,666,728
Trade and other payables	377,339	363,138
Other financial liabilities	5,847	1,760
Deferred tax liabilities	601,072	639,358
	2,512,934	2,670,984
Current liabilities		
Loans and borrowings	437,262	497,915
Trade and other payables	920,547	577,578
Current tax liabilities	31,336	21,695
	1,389,145	1,097,188
Total liabilities	3,902,079	3,768,172
Total equity and liabilities	9,950,069	10,001,154

Unaudited Pro Forma Consolidated Statement of Cash Flows for the Financial Year ended 31 December 2013 and the six months ended 30 June 2014

	Year ended 31 December 2013 (HK$'000)	**Six months ended 30 June 2014 (HK$'000)**
Cash flows from operating activities		
Profit before tax	374,921	234,789
Adjustments for:		
Depreciation of property, plant and equipment	16,386	7,955
Amortisation of intangible assets	10,482	7,867
Amortisation of land use rights	2,860	1,433
Bad debts written off	—	2,177
Gain on disposal of service concession rights	(27,347)	—
Loss/(Gain) on disposal of property, plant and equipment	125	(42)
Impairment losses on other receivables	—	608
Net fair value loss/(gain) on:		
- warrants	5,283	—
- cross-currency swap	5,761	(4,013)
- contingent consideration payable	84,045	—
Equity-settled share based transaction	67,332	—
Effect of foreign exchange rate changes	(4,583)	10,478
Net finance costs	143,263	76,917
Operating cash flows before working capital changes	678,528	338,169
Changes in working capital:		
Financial receivables	(768,572)	(5,843)
Inventories	(5,089)	(5,900)
Trade and other receivables	(140,346)	(124,672)
Trade and other payables	318,015	(208,504)
Cash generated from/(used in) operations	82,536	(6,750)
Interest received	8,307	906
Tax paid	(60,525)	(41,683)
Net cash from/(used in) operating activities	30,318	(47,527)

	Year ended 31 December 2013 (HK$'000)	Six months ended 30 June 2014 (HK$'000)
Cash flows from investing activities		
Acquisition of:		
- intangible assets	(848)	—
- subsidiaries, net of cash acquired	4,846	—
- concession rights	—	(9,736)
Interest received	—	1,543
Purchase of property, plant and equipment	(17,343)	(3,702)
Proceeds from disposal of:		
- property, plant and equipment	464	677
- concession rights	2,515	1,393
Repayment from loan receivables	—	49,860
Repayment of amounts due from intermediate holding company	(40,133)	—
Net cash (used in)/from investing activities	(50,499)	40,035
Cash flows from financing activities		
Proceeds from:		
- exercise of warrants	25,630	—
- exercise of share options	144,899	—
- issue of shares	88,379	—
- bank borrowings	260,432	410,610
- issue of notes	299,818	—
Repayment of bank borrowings	(368,400)	(184,725)
Advances from:		
- a fellow subsidiary	2,389	134,465
- immediate holding company	167,455	(200,464)
- intermediate holding company	6,241	177,266
Interest paid	(134,817)	(73,033)
Payment of transaction costs related to loans and borrowings	(36,646)	(2,622)
Increase in bank balances pledged	(14,980)	(109,522)
Net cash from financing activities	440,400	151,975

	Year ended 31 December 2013 (HK$'000)	Six months ended 30 June 2014 (HK$'000)
Net increase in cash and cash equivalents	420,219	144,483
Cash and cash equivalents at beginning of the year/period	214,833	638,584
Effect of exchange rate fluctuations on cash and cash equivalents	3,532	(4,658)
Cash and cash equivalents at end of the year/period	638,584	778,409
Represented by:		
Cash at bank and cash in hand	720,467	967,758
Less: Restricted bank balances	(81,883)	(189,349)
Cash and cash equivalents at end of the year/period	638,584	778,409

7.2 Financial Information of the HanKore Group

Results of operations of the HanKore Group

	Year ended 31 December			Six months ended 30 June	
	2011 (RMB'000)	2012 (RMB'000)	2013 (RMB'000)	2013 (RMB'000) Unaudited	2014 (RMB'000)
Revenue	268,474	203,801	575,689	220,203	166,682
Cost of sales	(215,062)	(90,616)	(346,007)	(140,754)	(107,579)
Gross profit	53,412	113,185	229,682	79,449	59,103
Other income	43,818	16,036	29,219	28,512	7,874
Distribution expenses	—	—	(1,325)	—	(864)
Administrative expenses	(58,155)	(55,133)	(65,080)	(31,236)	(67,917)
Other operating expenses	(141,367)	(6,965)	(87,480)	(3,789)	(46,723)
Results from operating activities	(102,292)	67,123	105,016	72,936	(48,527)
Finance income	159	123	1,204	290	1,227
Finance costs	(37,118)	(44,147)	(58,096)	(23,487)	(35,498)
Net finance costs	(36,959)	(44,024)	(56,892)	(23,197)	(34,271)
(Loss)/Profit before tax	(139,251)	23,099	48,124	49,739	(82,798)
Tax expense	(15,462)	(13,461)	(20,439)	(4,224)	(14,115)
(Loss)/Profit for the year/period	(154,713)	9,638	27,685	45,515	(96,913)
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Foreign currency translation differences from translation of foreign operations	12	(11)	—	—	—
Foreign currency translation differences realised from disposal of subsidiaries	85	—	—	—	—
Total other comprehensive income	97	(11)	—	—	—
Total comprehensive income for the year/period	(154,616)	9,627	27,685	45,515	(96,913)

Financial position of the HanKore Group

	31 December 2011 (RMB'000)	31 December 2012 (RMB'000)	31 December 2013 (RMB'000)	30 June 2014 (RMB'000)
Assets				
Property, plant and equipment	42,632	50,862	54,772	54,863
Intangible assets	119,809	124,073	235,998	239,525
Available-for-sale investment	—	—	—	—
Financial receivables	1,606,929	1,593,029	1,904,149	1,917,250
Land use rights	48,742	46,745	44,726	43,717
Other receivables	—	—	17,533	14,105
Non-current assets	1,818,112	1,814,709	2,257,178	2,269,460
Financial receivables	124,240	138,719	145,946	174,184
Inventories	866	984	6,334	10,534
Trade and other receivables	58,878	72,838	162,341	131,499
Cash and cash equivalents	43,465	50,880	242,608	380,831
Current assets	227,449	263,421	557,229	697,048
Total assets	2,045,561	2,078,130	2,814,407	2,966,508
Equity				
Share capital	380,040	380,040	435,898	455,157
Reserves	764,372	773,999	916,526	988,629
Equity attributable to owners of the Company	1,144,412	1,154,039	1,352,424	1,443,786
Non-controlling interests	(229)	(229)	(229)	(229)
Total equity	1,144,183	1,153,810	1,352,195	1,443,557
Liabilities				
Borrowings	387,779	365,873	741,008	884,016
Deferred tax liabilities	203,668	216,424	232,376	245,746
Other financial liabilities	—	—	4,597	1,405
Non-current liabilities	591,447	582,297	977,981	1,131,167
Borrowings	116,836	189,062	125,392	183,372
Trade and other payables	185,824	147,047	236,291	207,346
Other financial liabilities	7,236	5,891	115,421	795
Current tax liabilities	35	23	7,127	271
Current liabilities	309,931	342,023	484,231	391,784
Total liabilities	901,378	924,320	1,462,212	1,522,951
Total equity and liabilities	2,045,561	2,078,130	2,814,407	2,966,508

7.3 Financial Information of the Target Group

The financial information of the Target Group is disclosed in Section 4 titled “Selected Consolidated Financial Information” of the “Letter to Shareholders from the Directors of China Everbright Water Investments Limited”.

8. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION OF THE ENLARGED GROUP

The following discussion of the business, financial condition and results of operations of the Enlarged Group should be read in conjunction with the following:

(i) the “Audited Consolidated Financial Statements of HanKore Environment Tech Group Limited and its Subsidiaries for the Years Ended 31 December 2011, 2012 and 2013 and the Six Months Ended 30 June 2014” as set out in Appendix J to this Circular;

(ii) the “Audited Consolidated Financial Statements of China Everbright Water Investments Limited and Its Subsidiaries for the Financial Years Ended 31 December 2011, 2012 and 2013” as set out in Appendix H to this Circular;

(iii) the “Audited Consolidated Financial Statements of China Everbright Water Investments Limited and Its Subsidiaries for the Six Months Ended 30 June 2014” as set out in Appendix I to this Circular;

(iv) the “Unaudited Pro Forma Financial Information of the Enlarged Group” as set out in Appendix K to this Circular; and

(v) the “Letter to Shareholders from the Directors of China Everbright Water Investments Limited”.

For the purposes of this section 8 of this letter, “FY” refers to:

(a) in the case of the HanKore Group, the year ended 31 December; and

(b) in the case of the Target Group, the financial year ended 31 December.

8.1 Basis of preparation / Significant Accounting Policy Changes

Basis of preparation for the Enlarged Group

a) The unaudited pro forma consolidated financial information for the Enlarged Group has been prepared for illustrative purposes only, and based on certain assumptions after making certain adjustments, to show what:

(i) the unaudited pro forma consolidated financial position of the Enlarged Group as at 31 December 2013 and 30 June 2014 would have been if the Proposed Acquisition had occurred on 31 December 2013 and 30 June 2014 respectively;

(ii) the unaudited pro forma consolidated financial results of the Enlarged Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 would have been if the Proposed Acquisition had occurred on 1 January 2011; and

(iii) the unaudited pro forma consolidated cash flows of the Enlarged Group for the year ended 31 December 2013 and the six months ended 30 June 2014 would have been if the Proposed Acquisition had occurred on 1 January 2013.

The unaudited pro forma consolidated financial information, because of their nature, may not give a true picture of the actual financial position, financial results and cash flows of the Enlarged Group.

b) The unaudited pro forma consolidated financial information of the Enlarged Group for the years ended 31 December 2011, 2012, and 2013 and the six months ended 30 June 2014 have been compiled based on the following:

(i) the audited consolidated financial statements of the HanKore Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and audited by KPMG LLP, a firm of Chartered Accountants registered with the Accounting and Corporate Regulatory Authority in Singapore, in accordance with the International Standards on Auditing; and

(ii) the audited consolidated financial statements of the Target Group for the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, which were prepared in accordance with IFRS and were audited by KPMG, a firm of Certified Public Accountants under Section 28A of the Hong Kong Professional Accountants Ordinance, Chapter 50, in accordance with the International Standards on Auditing.

The auditors' reports on the consolidated financial statements of the HanKore Group and the Target Group do not contain any qualification.

For the purposes of clarity, the results of operations and financial position of the Enlarged Group have been analysed using the respective presentation currency for each of the HanKore Group and the Target Group as their businesses were separate and distinct, with no inter-group transactions prior to the Proposed Transactions.

c) The presentation currency of the Target Group is HK$. The Company's functional currency and the presentation currency of the HanKore Group is RMB. For purpose of compilation of the unaudited pro forma consolidated financial information, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$.

Basis of preparation for the HanKore Group

Prior to the financial year ended 30 June 2014, the HanKore Group had prepared its financial statements under Singapore Financial Reporting Standards ("**SFRS**"). In connection with the Proposed Acquisition, as the financial statements of the Target Group is prepared under International Financial Reporting Standards ("**IFRS**"), the HanKore Group had adopted the IFRS for the financial year ended 30 June 2014.

Further, for comparability and for the purposes of preparation of the unaudited Pro Forma financial information of the Enlarged Group for inclusion in the Circular, the HanKore Group has prepared financial statements under IFRS on a 31 December year end basis for years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. The analyses set out in this section are based on the financial statements of the HanKore Group prepared under IFRS on a 31 December basis as set out above.

For further information on the changes arising from or details regarding the adoption of IFRSs, please refer to the Appendix J titled "Audited Consolidated Financial Statements of HanKore Environment Tech Group Limited and its Subsidiaries for the Years Ended 31 December 2011, 2012 and 2013 and the Six Months Ended 30 June 2014" to this Circular.

Significant Accounting Policy Changes for the Target Group

Up to the date of issue of these financial statements, the International Accounting Standards Board ("**IASB**") has issued a few amendments and new standards which are not yet effective for the six months ended 30 June 2014 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018

The Target Group is in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application but is not yet in a position to state whether these amendments and new standard would have a significant impact on the Target Group's results of operations and financial position.

8.2 Overview

The Enlarged Group comprises:

a) the HanKore Group, whose principal business is that of wastewater treatment, water recycling, water supply, sludge treatment and EPC; and

b) the Target Group, which is principally engaged in the environmental water sector in the PRC.

8.3 Description of Selected Income Statement Line Items

8.3.1 Revenue / Turnover

<u>*HanKore Group*</u>

The HanKore Group's revenue consists of revenue generated from its wastewater treatment plants and EPC services. Revenue represents construction services, finance income and operation income from service concession arrangements, construction contract revenue and discharge fees from wastewater treatment and recycling.

The following table sets out the amount of the HanKore Group's revenue contributed by each significant category of revenue recognised for the years and periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**	**(RMB'000)**
Construction services from service concession arrangement	96,274	30,557	331,004	123,857	67,546
Finance income from service concession arrangement	104,192	106,676	133,878	63,868	52,984
Operation income from service concession arrangement	41,691	45,988	49,530	23,248	23,361
Construction contract revenue	—	—	43,549	1,174	14,757
Discharge fees from wastewater treatment and recycling	26,317	20,580	17,728	8,056	8,034
Total	268,474	203,801	575,689	220,203	166,682

a) Service concession agreements

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the HanKore Group's accounting policy on recognising revenue on construction contract (see below). Operation or service revenue is recognised in the period in which the services are provided by the HanKore Group.

When the HanKore Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

For the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, revenue from construction services from service concession arrangement represented 35.9%, 15.0%, 57.5% and 40.5%, respectively, of the HanKore Group's total revenue for the respective years and period indicated.

b) Finance income from service concession agreement

Finance income from service concession arrangement represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised in profit or loss using the effective interest method.

The HanKore Group's finance income from service concession arrangement represented 38.8%, 52.3%, 23.3% and 31.8% of the HanKore Group's total revenue for years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively.

c) Operation income from service concession arrangement

Revenue from operation services is recognised when the related services are rendered.

For the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, operation income from service concession arrangement represented 15.5%, 22.6%, 8.6% and 14.0%, respectively, of the HanKore Group's total revenue for the respective years and period.

d) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

For the year ended 31 December 2013 and the six months ended 30 June 2014, construction contract revenue represented 7.6% and 8.9%, respectively, of the HanKore Group's total revenue for the respective year and period.

e) Discharge fees from wastewater treatment and recycling

Discharge fees from wastewater treatment and recycling are recognised based on volume of wastewater treated and recycling and are recognised in the period when the services are rendered.

For the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, discharge fees from wastewater treatment and recycling represented 9.8%, 10.1%, 3.1% and 4.8%, respectively, of the HanKore Group's total revenue for the respective years and period.

Target Group

The Target Group's turnover consists of turnover generated from its wastewater treatment plants, reusable water treatment plants and water source heat pump projects. Turnover represents the revenue from construction services, revenue from operation services and finance income.

The following table sets out the amount of the Target Group's turnover contributed by each significant category of revenue recognized in turnover for the years and periods indicated:

	Year ended December 31						Six months ended June 30			
	2011		2012		2013		2013		2014	
	(HK$'000)	% of Total	(HK$'000)	% of Total	(HK$'000)	% of Total	(HK$'000)	% of Total	(HK$'000)	% of Total
Construction services	178,903	20.9%	648,084	46.6%	449,779	34.8%	199,702	34.8%	80,999	16.0%
Operation services	431,275	50.5%	507,687	36.5%	564,772	43.8%	242,037	42.1%	284,887	56.3%
Finance income	244,354	28.6%	235,256	16.9%	276,189	21.4%	132,668	23.1%	139,951	27.7%
Total	854,532	100.0%	1,391,027	100.0%	1,290,740	100.0%	574,407	100.0%	505,837	100.0%

a) Construction services

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognized profit less recognized losses and progress billings, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Debtors, other receivables, deposits and prepayments".

For the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, turnover from construction services represented 20.9%, 46.6%, 34.8% and 16.0%, respectively, of the Target Group's total turnover for the respective years and period indicated.

The percentages of construction service revenue to total turnover vary dependent on the construction works carried out in that year or period.

b) Operation services

Revenue from operation services are recognized when the related services are rendered.

For the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, turnover from operation services represented 50.5%, 36.5%, 43.8% and 56.3%, respectively, of the Target Group's total turnover for the respective years and period indicated.

The percentages are dependent on the amount of construction service revenue recognized during that year or period.

c) Finance income

Finance income on the financial assets is recognized using an estimate of the service concession grantors' incremental borrowing rate of interest.

The Target Group's finance income represented 28.6%, 16.9%, 21.4% and 27.7% of the Target Group's total turnover for FY2011, FY2012, FY2013 and 1H2014, respectively.

The recognition of finance income is dependent on the beginning and ending balances of gross amounts due from customers for contract work and other receivables under IFRIC12.

8.3.2 Cost of sales

HanKore Group

The HanKore Group's cost of sales mainly consists of:

a) construction costs recognised which may fluctuate from period to period as the costs in any period depend on the construction progress of the projects in the period; and

b) the direct costs of operating its water plants such as electricity costs, cost of chemicals used to treat the wastewater, plant maintenance, sludge treatment costs and direct labour costs.

Target Group

The Target Group's cost of sales primarily consists of:

a) costs recognized for construction contracts which may fluctuate from period to period as the Target Group's costs in any period depend on the EP contracts and construction progress of the projects in the relevant financial period; and

b) the direct costs of operating its water plants such as direct labor costs, repair and maintenance costs, electricity costs, cost of chemicals used to treat the wastewater, plant maintenance, sludge treatment costs.

8.3.3 Gross profit and gross profit margin

HanKore Group

Gross profit represents revenue less cost of sales. Gross profit margin is the gross profit divided by revenue, expressed as a percentage.

The HanKore Group's gross profit amounted to RMB53.4 million, RMB113.2 million, RMB229.7 million and RMB59.1 million for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively.

The HanKore Group's gross profit margin was 19.9%, 55.5%, 39.9% and 35.5% for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively.

The HanKore Group's gross profit margin depends upon a combination of factors, including the volume of the wastewater treated, the prices at which the HanKore Group charge for its services, the cost of raw materials, the construction services as well as the labour and overhead costs.

Target Group

Gross profit represents turnover less cost of sales. Gross profit margin is the Target Group's gross profit divided by turnover, expressed as a percentage.

The Target Group's overall high gross profit margin during the past three financial years and six months ended 30 June 2014 was primarily attributable to the following reasons: (i) the Target Group's wastewater treatment services to multiple customers, which has allowed the Target Group to achieve economies of scale and reduce its treatment costs, as it was able to utilize the infrastructure and technologies specific for treating large quantities of wastewater from similar sources and containing similar pollutants; (ii) profit contribution from new projects which commenced commercial operation during the periods; and (iii) the Target Group's ability to increase the unit price charged for its wastewater treatment services in relation to multiple wastewater treatment projects such as Zibo Zhoucun Wastewater Treatment Project and Binzhou Boxing Wastewater Treatment Project after obtaining consent or approval from the local authorities.

The Target Group's gross profit margin depends upon a combination of factors, including the volume of the Target Group's services, the prices the Target Group charge for the Target Group's services, the cost of raw materials, the construction services as well as the Target Group's labour and overhead costs.

8.3.4 *Other income / revenue*

HanKore Group

HanKore Group's other income mainly comprises foreign exchange gains, gain on extinguishment of account balances, gain on disposals of concession rights and property, plant and equipment, government grants and fair value gains on various financial instruments.

Target Group

Other revenue primarily consists of interest income generated from amounts due from related parties, interest income generated from bank deposits and government grants.

Government grants are recognized in the balance sheet initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognized as income in profit or loss in a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

8.3.5 General and administrative expenses

HanKore Group

Administrative expenses primarily consist of: (i) salaries, welfare and other staff benefits; (ii) depreciation of land use rights; (iii) depreciation of property, plant and equipment; and (iv) rental expenses on operating lease.

Target Group

General and administrative expenses primarily consist of: (i) salaries, welfare and other staff benefits; (ii) depreciation of property, plant and equipment for office use and amortization of lease prepayment relating to land use rights and the Target Group's wastewater treatment plants operating rights; (iii) office expenses; (iv) marketing expenses; (v) professional fees and expenses; (vi) environmental compliance costs; (vii) exchange gains or losses; and (viii) other administrative expenses.

8.3.6 Other operating expenses

HanKore Group

HanKore Group's other operating expenses mainly comprise fair value losses on various financial instruments, bad debts written off, impairment loss on other receivables and loss on extinguishment of debts.

Target Group

Other loss primarily consists of losses arising from sale of property, plant and equipment.

8.3.7 Net finance costs

HanKore Group

Finance income comprises interest income on deposits placed at banks. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Target Group

Finance costs primarily consist of interest expenses on the Target Group's bank borrowings. For FY2011, FY2012, FY2013 and 1H2014, the Target Group incurred finance costs of HK$106.4 million, HK$90.7 million, HK$78.8 million and HK$34.7 million, respectively.

Several projects commenced operations for certain years and the project loans were partially repaid. Therefore, the interest expenses decreased during the year/period.

8.3.8 Tax expense

HanKore Group

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Target Group

The Target Group's income tax represents enterprise income tax expenses, withholding tax expenses payable on undistributed profits to non-PRC residents by the Target Group's PRC subsidiaries, and tax effect of temporary differences on revenue recognition.

Certain projects' tax holidays have been ended and therefore result in an increase in tax.

8.4 Review of past operating performance of the Enlarged Group

8.4.1 1H2014 compared to 1H2013

For the purposes of compilation of the unaudited pro forma consolidated statements of comprehensive income for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.7979 for 1H2013 and HK$1 = RMB0.7954 for 1H2014.

a) Revenue / Turnover

Enlarged Group

The Enlarged Group's revenue was lower in 1H2014 as compared to 1H2013. The decrease was principally a result of decreases from HanKore Group and the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

HanKore Group's revenue decreased by RMB53.5 million or 24.3% from RMB220.2 million in 1H2013 to RMB166.7 million in 1H2014. The decrease was mainly attributed to lower revenue contribution from i) construction services from service concession arrangement (1H2013: RMB123.9 million vs. 1H2014: RMB67.5 million); and ii) finance income from service concession arrangement (1H2013: RMB63.9 million vs. 1H2014: RMB53.0 million); offset by higher construction contract revenue in 1H2014 (1H2013: RMB1.2 million vs. 1H2014: RMB14.8 million).

Target Group

The Target Group's turnover decreased by 11.9% to HK$505.8 million in 1H2014 from HK$574.4million in 1H2013. The Target Group's turnover decreased primarily due to the decrease in turnover from construction services.

b) *Cost of sales*

Enlarged Group

The Enlarged Group's cost of sales was lower in 1H2014 as compared to 1H2013. The decrease was principally a result of decreases from HanKore Group and the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

HanKore Group's total cost of sales decreased by 23.6% to RMB107.6 million in 1H2014 from RMB140.8 million in 1H2013, primarily due to the decrease in the costs relating to construction services from service concession arrangements.

Target Group

The Target Group's total cost of sales decreased by 38.1% to HK$196.7 million in 1H2014 from HK$317.6 million in 1H2013, primarily due to the decrease in the costs relating to construction services.

c) *Gross profit and gross profit margin*

Enlarged Group

The Enlarged Group's gross profit and gross profit margin was higher in 1H2014 as compared to 1H2013. The Enlarged Group's gross profit margin improved because the decline in cost of sales was larger (on a percentage basis) vis-à-vis the decline in revenues. For 1H2014, the Enlarged Group's gross profit margin was 53.6%. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Gross profit of the HanKore Group amounted to RMB79.4 million and RMB59.1 million in 1H2013 and 1H2014, respectively and the gross profit margins were generally in line at 36.1% in 1H2013 and 35.5% in 1H2014.

Target Group

The Target Group's gross profit increased by 20.4% to HK$309.1 million in 1H2014 from HK$256.8 million in 1H2013, primarily as a result of the factors described above.

The Target Group's overall gross profit margin increased to 61.1% in 1H2014 from 44.7% in 1H2013. The increase in gross profit margin was mainly because:

(i) the construction service segment contributed a smaller proportion of total revenue, while contributions from the operating service revenue and finance income increased; and

(ii) the construction service segment yields lower gross profit margins as compared to the two mentioned earlier.

Segmental Contribution

	% contribution to Total Revenue			
Segment	**1H2013**		**1H2014**	
Construction Service	199,702	34.8%	80,999	16.0%
Operation Service	242,037	42.1%	284,887	56.3%
Finance Income	132,668	23.1%	139,951	27.7%

d) *Other income*

Enlarged Group

The Enlarged Group's other income was lower in 1H2014 as compared to 1H2013. The decline in other income in 1H2014 as compared to 1H2013 was mainly due to absence of certain one-off items which occurred in 1H2013. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Other income in 1H2013 amounted to RMB28.5 million compared to RMB7.9 million in 1H2014. Other income was lower in 1H2014 due mainly to the absence of i) gain on disposal of service concession rights (1H2013: RMB21.8 million vs. 1H2014: nil); and ii) fair value gain on contingent consideration payable (1H2013: RMB3.9 million vs. 1H2014: nil); but offset by i) higher sundry income (1H2013: RMB0.1 million vs. 1H2014: RMB4.0 million); and ii) fair value gain on cross-currency swap (1H2013: nil vs. 1H2014: RMB3.2 million).

Target Group

The Target Group's other revenue decreased by 23.7% to HK$3.9 million in 1H2014 from HK$5.1 million in 1H2013. The Target Group's other revenue represented, amongst others, interest income generated from bank deposits and other receivable.

e) *General and administrative expenses*

Enlarged Group

The Enlarged Group's administrative expenses were higher in 1H2014 as compared to 1H2013. The increase was principally a result of an increase from HanKore Group; this was partially offset by a decrease from the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Administrative expenses increased by RMB36.7 million from RMB31.2 million in 1H2013 to RMB67.9 million in 1H2014, due to higher staff costs arising from equity-settled share-based payment transactions of RMB26.5 million in 1H2014 (1H2013: nil).

Target Group

The Target Group's general and administrative expenses decreased by 7.4% to HK$30.9 million in 1H2014 from HK$33.4 million in 1H2013. This was primarily due to the effective cost control.

f) *Other operating expense / Other loss*

Enlarged Group

The Enlarged Group's other operating expenses were higher in 1H2014 as compared to 1H2013. The increase was principally a result of an increase from HanKore Group and the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Other operating expenses increased from RMB3.8 million in 1H2013 to RMB46.7 million in 1H2014, arising mainly from the following losses in 1H2014, i) fair value loss on warrants of RMB9.5 million; and ii) net fair value loss on contingent consideration payable of RMB26.7 million. There were no such losses in 1H2013.

Target Group

The Target Group's other loss increased by 190.2% to HK$148,000 in 1H2014 from HK$51,000 in 1H2013. The Target Group's other loss primarily represented losses arising from sale of property, plant and equipment.

g) *Net finance costs*

Enlarged Group

The Enlarged Group's net finance cost was higher in 1H2014 as compared to 1H2013. The increase was principally a result of an increase from HanKore Group; this was partially offset by a decrease from the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Finance costs increased from RMB23.5 million in 1H2013 to RMB35.5 million in 1H2014 as a result of higher bank borrowings and issue of MTN Notes. The MTN Notes were issued in August 2013.

Target Group

The Target Group's finance costs decreased by 9.4% to HK$34.7 million in 1H2014 from HK$38.3 million in 1H2013, primarily due to the partial repayment of the Target Group's bank borrowings.

h) *Tax expense*

Enlarged Group

The Enlarged Group's tax expense was higher in 1H2014 as compared to 1H2013. The increase was principally a result of an increase from HanKore Group and the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

Tax expense increased from RMB4.2 million in 1H2013 to RMB14.1 million in 1H2014, due mainly to higher deferred tax recognised for 1H2014.

Target Group

The Target Group's income tax increased by 22.2% to HK$69.1 million in 1H2014 from HK$56.5 million in 1H2013, which was primarily due to an increase in the provision for PRC income tax as a result of the decrease in non-deductible expenses for certain subsidiaries. Accordingly, the Target Group's effective tax rate, calculated as income tax divided by profit before taxation, decreased to 27.9% in 1H2014 from 29.7% in 1H2013.

i) *Profit for the six-month period*

Enlarged Group

The Enlarged Group's profit for the period was lower in 1H2014 as compared to 1H2013. The increase was principally a result of a decrease from HanKore Group;

this was partially offset by an increase from the Target Group. For further details on the reasons for the fluctuations, please refer to the write-ups below for HanKore Group and the Target Group respectively.

HanKore Group

HanKore Group's profit for the period of RMB45.5 million in 1H2013 turned into loss for the period of RMB96.9 million in 1H2014 primarily as a result of the factors described above.

Target Group

The Target Group's profit for the six-month period increased by 33.3% to HK$178.2 million in 1H2014 from HK$133.7 million in 1H2013, primarily as a result of the factors described above.

8.4.2 FY2013 compared to FY2012

For the purposes of compilation of the unaudited pro forma consolidated statements of comprehensive income for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.8134 for FY2012 and HK$1 = RMB0.7979 for FY2013.

i) Revenue / Turnover

Enlarged Group

The Enlarged Group's revenue increased by HK$370.6 million from HK$1,641.6 million in FY2012 to HK$2,012.2 million in FY2013, due to increase in revenue of the HanKore Group of HK$470.9 million, but offset by decrease in the Target Group's revenue of HK$100.3 million. The HanKore Group and the Target Group contributed 35.9% (FY2012: 15.3%) and 64.1% (FY2012: 84.7%) of the Enlarged Group's revenue in FY2013 respectively.

HanKore Group

HanKore Group's revenue increased by RMB371.9 million or 182.5% from RMB203.8 million in FY2012 to RMB575.7 million in FY2013. The increase was attributed to higher revenue contribution from i) construction services from service concession arrangement (FY2012: RMB30.6 million vs. FY2013: RMB331.0 million); ii) finance income from service concession arrangement (FY2012: RMB106.7 million vs. FY2013: RMB133.9 million); iii) operation income from service concession arrangement (FY2012: RMB46.0 million vs. FY2013: RMB49.5 million); and iv) construction contract revenue (FY2012: nil vs. FY2013: RMB43.5 million); but offset by lower discharge fee from wastewater treatment and recycling in FY2013 (FY2012: RMB20.6 million vs. FY2013: RMB17.7 million).

Target Group

The Target Group's turnover decreased by 7.2% to HK$1,290.7 million in FY2013 from HK$1,391.0 million in FY2012. The Target Group's turnover decreased primarily due to a decrease in turnover generated from construction services, partially offset by an increase in turnover generated from operation services and finance income.

ii) *Cost of sales*

Enlarged Group

The Enlarged Group's total cost of sales increased by HK$177.4 million from HK$1,017.7 million in FY2012 to HK$1,195.1 million in FY2013, due to increase in the HanKore Group's cost of sales of HK$322.2 million, but offset by a decrease in the Target Group's cost of sales of 144.8 million. The HanKore Group and the Target Group contributed 36.3% (FY2012: 10.9%) and 63.7% (FY2012: 89.1%) of the Enlarged Group's cost of sales in FY2013 respectively.

HanKore Group

HanKore Group's total cost of sales increased by 281.9% to RMB346.0 million in FY2013 from RMB90.6 million in FY2012, primarily due to the increase in the costs relating to construction services.

Target Group

The Target Group's total cost of sales decreased by 16.0% to HK$761.5 million in FY2013 from HK$906.3 million in FY2012, primarily due to the decrease in the costs relating to construction services and effective cost reduction in operating projects.

iii) *Gross profit and gross profit margin*

Enlarged Group

The Enlarged Group's gross profit increased by HK$193.2 million from HK$623.9 million in FY2012 to HK$817.1 million in FY2013. The gross profit margin had also improved from 38.0% in FY2012 to 40.6% in FY2013. The HanKore Group and the Target Group contributed 35.2% (FY2012: 22.3%) and 64.8% (FY2012: 77.7%) of the Enlarged Group's FY2013 gross profit respectively.

HanKore Group

Gross profit of HanKore Group amounted to RMB113.2 million and RMB229.7 million in FY2012 and FY2013, respectively and the gross profit margin decreased from 55.5% in FY2012 to 39.9% in FY2013, due mainly to revenue mix in FY2013 consisting of higher percentage of lower margin construction services from service concession arrangements.

Target Group

The Target Group's gross profit increased by 9.2% to HK$529.3 million in FY2013 from HK$484.7 million in FY2012, as a result of the factors described above.

iv) *Other income*

Enlarged Group

The Enlarged Group's other income increased by HK$13.6 million from HK$29.0 million in FY2012 to HK$42.6 million in FY2013, due to increase in the HanKore Group's other income. The HanKore Group and the Target Group contributed 75.4% (FY2012: 63.9%) and 24.6% (FY2012: 36.1%) of the Enlarged Group's FY2013 other income respectively.

HanKore Group

Other income in FY2012 amounted to RMB16.0 million compared to RMB29.2 million in FY2013. Other income was higher in FY2013 due mainly to gain on disposal of service concession rights of RMB21.8 million (no such gain in FY2012), offset by lower government grant (FY2012: RMB12.8 million vs. FY2013: RMB1.6 million).

Target Group

The Target Group's other revenue decreased by 21.7% to HK$17.3 million in FY2013 from HK$22.1 million in 2012. The higher amount of other revenue in FY2012 was primarily due to other tax refund recognized in that year.

v) *General and administrative expenses*

Enlarged Group

The Enlarged Group's administrative expenses increased by HK$41.9 million from HK$111.6 million in FY2012 to HK$153.5 million in FY2013. Both the HanKore Group and the Target Group's administrative expenses increased year-on-year, and contributed 50.2% (FY2012: 55.4%) and 42.8% (FY2012: 44.6%) of the Enlarged Group's administrative expenses in FY2013 respectively.

HanKore Group

Administrative expenses increased by RMB9.9 million from RMB55.1 million in FY2012 to RMB65.1 million in FY2013, due mainly to increase in staff costs.

Target Group

The Target Group's general and administrative expenses increased by 32.1% to HK$65.7 million in FY2013 from HK$49.7 million in FY2012, primarily due to expansion of environmental water business, inflation and RMB appreciation.

vi) Other operating expenses / Other loss

Enlarged Group

The Enlarged Group's other operating expenses increased by HK$8.8 million from HK$8.6 million in FY2012 to HK$17.4 million in FY2013. The HanKore Group and the Target Group contributed 99.5% (FY2012: 99.9%) and 0.5% (FY2012: 0.1%) of the Enlarged Group's other operating expenses in FY2013 respectively.

HanKore Group

Other operating expenses increased significantly from RMB7.0 million in FY2012 to RMB87.5 million in FY2013, arising mainly from the following losses in FY2013, i) net fair value loss on warrants of RMB23.7 million; ii) fair value loss on cross-currency swap of RMB4.6 million; and iii) fair value loss on contingent consideration payable of RMB54.2 million. There were no such losses in FY2012.

Target Group

The Target Group's other loss increased by 600.0% to HK$84,000 in FY2013 from HK$12,000 in FY2012. The higher amount of other loss in FY2013 was primarily due to increase in loss on sale of property, plant and equipment.

vii) Net finance costs

Enlarged Group

The Enlarged Group's net finance cost increased by HK$10.2 million from HK$133.1 million in FY2012 to HK$143.3 million in FY2013, due to increase of HK$17.2 million in the HanKore Group's net finance cost, but offset by a decrease of HK$7.0 million in the Target Group's net finance cost. The HanKore Group and the Target Group contributed 49.8% (FY2012: 40.7%) and 50.2% (FY2012: 59.3%) of the Enlarged Group's net finance cost in FY2013 respectively.

HanKore Group

Finance costs increased from RMB44.1 million in FY2012 to RMB58.1 million in FY2013 as a result of larger bank borrowings and higher amortisation of transaction costs capitalised (FY2012: RMB1.0 million vs. FY2013: RMB5.9 million), but offset by lower interest rates in FY2013.

Target Group

The Target Group's finance costs decreased by 13.1% to HK$78.8 million in FY2013 from HK$90.7 million in FY2012, primarily due to a decrease in finance costs as a result of decreased bank borrowings in FY2013.

viii) Tax expense

Enlarged Group

The Enlarged Group's tax expense increased by HK$22.5 million from HK$114.7 million in FY2012 to HK$137.2 million in FY2013. The tax expense for the HanKore Group and the Target Group had increased by HK$9.1 million and HK$13.4 million respectively year-on-year, and contributed 18.7% (FY2012: 14.4%) and 81.3% (FY2012: 85.6%) of the Enlarged Group's tax expense in FY2013 respectively.

HanKore Group

Tax expense increased from RMB13.5 million in FY2012 to RMB20.4 million in FY2013, due to an increase in movement of temporary difference between financial receivables and deductible capital expenditures under PRC tax basis.

Target Group

The Target Group's income tax increased by 13.7% to HK$111.6 million for FY2013 from HK$98.1 million for FY2012, primarily due to an increase in the provision for PRC income tax as a result of expiry of tax holiday for certain subsidiaries. The Target Group's effective tax rate, calculated as income tax divided by profit before taxation, increased to 27.7% in FY2013 from 26.8% in FY2012.

ix) Profit for the year

Enlarged Group

The Enlarged Group's profit for the year increased by HK$121.7 million from HK$284.9 million in FY2012 to HK$406.6 million in FY2013. The HanKore Group and the Target Group contributed 8.8% (FY2012: 5.8%) and 73.7% (FY2012: 94.2%) of the Enlarged Group's profit for the year in FY2013 respectively.

HanKore Group

HanKore Group's profit for the year was RMB9.6 million in FY2012 as compared to profit for the year of RMB27.7 million in FY2013 primarily as a result of the factors described above.

Target Group

The Target Group's profit for the year increased by 8.3% to HK$290.4 million in FY2013 from HK$268.2 million in FY2012, primarily as a result of the factors described above.

8.4.3 *FY2012 compared to FY2011*

For the purposes of compilation of the unaudited pro forma consolidated statements of comprehensive income for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.8279 for FY2011 and HK$1 = RMB0.8134 for FY2012.

i) Revenue / Turnover

Enlarged Group

The Enlarged Group's revenue increased by HK$462.8 million from HK$1,178.8 million in FY2011 to HK$1,641.6 million in FY2012, due to significant increase in revenue of HK$536.5 million in the Target Group, but offset by a decrease of HK$73.7 million in the HanKore Group's revenue. The HanKore Group and the Target Group contributed 15.3% and 84.7% of the Enlarged Group's FY2012 revenue respectively. For the Enlarged Group's revenue in FY2011, the HanKore Group and the Target Group contributed 27.5% and 72.5% respectively.

HanKore Group

HanKore Group's revenue decreased by RMB64.7 million or 24.1% from RMB268.5 million in FY2011 to RMB203.8 million in FY2012, due mainly to lower revenue of RMB30.6 million being recognised from construction services from service concession arrangements in FY2012, compared to RMB96.3 million in FY2011.

Target Group

The Target Group's turnover increased by 62.8% to HK$1,391.0 million in FY2012 from HK$854.5 million in FY2011. The Target Group's turnover increase was primarily attributable to the increase in turnover generated from construction and operation services.

ii) Cost of sales

Enlarged Group

The Enlarged Group's total cost of sales increased by HK$358.4 million from HK$659.3 million in FY2011 to HK$1,017.7 million in FY2012, due to significant increase of HK$506.8 million in the Target Group's cost of sales, but offset by a decrease of HK$148.4 million in the HanKore Group's cost of sales. The HanKore Group and the Target Group contributed 10.9% and 89.1% of the Enlarged Group's FY2012 cost of sales respectively. For the Enlarged Group's cost of sales in FY2011, the HanKore Group and the Target Group contributed 39.4% and 60.6% respectively.

HanKore Group

HanKore Group's total cost of sales decreased by 57.9% to RMB90.6 million in FY2012 from RMB215.1 million in FY2011, primarily due to the decrease in the costs relating to construction services from service concession arrangements.

Target Group

The Target Group's total cost of sales increased by 126.9% to HK$906.3 million in FY2012 from HK$399.5 million in FY2011, primarily due to the increase in the costs relating to construction services.

iii) Gross profit and gross profit margin

Enlarged Group

The Enlarged Group's gross profit increased by HK$104.3 million from HK$519.6 million in FY2011 to HK$623.9 million in FY2012. The gross profit margin dropped from 44.1% in FY2011 to 38.0% in FY2012. The HanKore Group and the Target Group contributed 22.3% and 77.7% of the Enlarged Group's gross profit in FY2012 respectively. For the Enlarged Group's FY2011 gross profit, the HanKore Group and the Target Group contributed 12.4% and 87.6% respectively.

HanKore Group

Gross profit of HanKore Group amounted to RMB53.4 million and RMB113.2 million in FY2011 and FY2012, respectively, and the gross profit margin increased from 19.9% in FY2011 to 55.5% in FY2012, due mainly to i) FY2011 being adversely impacted by construction services cost write-off amounting to RMB76.3 million while there was no such cost written off in FY2012, as well as ii) revenue mix in FY2011 tilting towards lower margin construction services from service concession arrangements.

Target Group

The Target Group's gross profit increased by 6.5% to HK$484.7 million in FY2012 from HK$455.0 million in FY2011, as a result of the factors described above.

iv) Other income

Enlarged Group

The Enlarged Group's other income decreased by HK$20.0 million from HK$49.0 million in FY2011 to HK$29.0 million in FY2012, due to a decrease in the HanKore Group's other income, but offset by an increase in the Target Group's other income.

HanKore Group

Other income in FY2011 amounted to RMB43.8 million compared to RMB16.0 million in FY2012. Other income was higher in FY2011 due mainly to higher net gain from i) foreign exchange (FY2011: RMB2.6 million vs. FY2012: RMB0.03 million); ii) fair value on warrants (FY2011: RMB6.5 million vs. FY2012: RMB1.3 million); iii) disposal of subsidiaries (FY2011: RMB6.1 million vs. FY2012: nil); and iv) extinguishment of account balances (FY2011: RMB19.4 million vs. FY2012: nil); but offset by lower government grant (FY2011: RMB6.5 million vs. FY2012: RMB12.8 million).

Target Group

The Target Group's other revenue increased by 117.9% to HK$22.1 million in FY2012 from HK$10.1 million in FY2011, partially due to increase in interest income.

v) *Administrative expenses*

Enlarged Group

The Enlarged Group's administrative expenses decreased by HK$112.5 million from HK$224.1 million in FY2011 to HK$111.6 million in FY2012. The HanKore Group's administrative expenses were more or less flat year-on-year while there was a small decrease in the Target Group's administrative expenses between FY2011 and FY2012.

HanKore Group

Administrative expenses decreased marginally by RMB3.0 million from RMB58.2 million in FY2011 to RMB55.1 million in FY2012, arising mainly from lower amortisation of land use rights and depreciation of property, plant and equipment in FY2012.

Target Group

The Target Group's general and administrative expenses decreased by 10.3% to HK$49.7 million in FY2012 from HK$55.4 million in FY2011, primarily due to effective cost reduction.

vi) *Other operating expenses / Other loss*

Enlarged Group

The Enlarged Group's other operating expenses decreased by HK$266.9 million from HK$275.5 million in FY2011 to HK$8.6 million in FY2012, mainly due to a decrease in the HanKore Group's other operating expenses, with the Target Group's other operating expenses being flat year-on-year. The HanKore Group and the Target Group contributed 99.9% (FY2011: 99.9%) and 0.1% (FY2011:0.1%) of the Enlarged Group's FY2012 other operating expenses respectively.

HanKore Group

Other operating expenses decreased significantly from RMB141.4 million in FY2011 to RMB7.0 million in FY2012. HanKore Group in FY2011 recognised an impairment loss on available-for-sale investments of RMB69.8 million and a loss on extinguishment of debts amounting to RMB70.5 million, there were no such losses in FY2012.

Target Group

The Target Group's other loss decreased by 96.6% to HK$12,000 for FY2012 from HK$349,000 for FY2011.

vii) *Net finance costs*

Enlarged Group

The Enlarged Group's net finance cost decreased by HK$11.4 million from HK$144.5 million in FY2011 to HK$133.1 million in FY2012, due to a decrease of HK$20.9 million in the Target Group's net finance costs, but offset by an increase of HK$9.5 million in the HanKore Group's net finance costs. The HanKore Group and the Target Group contributed 40.7% and 59.3% of the Enlarged Group's net finance cost in FY2012 respectively. For the Enlarged Group's net finance costs in FY2011, the HanKore Group and the Target Group contributed 30.9% and 69.1% respectively.

HanKore Group

Finance costs increased from RMB37.1 million in FY2011 to RMB44.1 million in FY2012 as a result of larger bank borrowings and higher interest rates in FY2012.

Target Group

The Target Group's finance costs decreased by 14.7% to HK$90.7 million in FY2012 from HK$106.4 million in FY2011, primarily due to the decrease in finance costs as a result of decreased bank borrowings in FY2012.

viii) *Tax expenses*

Enlarged Group

The Enlarged Group's tax expense increased by HK$23.8 million from HK$90.9 million in FY2011 to HK$114.7 million in FY2012, due to an increase of HK$25.9 million in the Target Group's tax expense, but offset by a slight decrease of HK$2.1 million in the HanKore Group's tax expense. The HanKore Group and Target Group contributed 14.4% and 85.6% of the Enlarged Group's tax expense in FY2012 respectively. For the Enlarged Group's tax expense in FY2011, the HanKore Group and the Target Group contributed 20.5% and 79.5% respectively.

HanKore Group

Tax expense decreased from RMB15.5 million in FY2011 to RMB13.5 million in FY2012 due mainly to decrease in deferred tax expense (FY2011: RMB15.5 million vs FY2012: RMB12.8 million). The lower deferred tax recognised for FY2012 was due to decrease in movement of temporary difference between financial receivables and deductible capital expenditure under PRC tax basis.

Target Group

The Target Group's income tax increased by 35.9% to HK$98.1 million for FY2012 from HK$72.2 million for FY2011, which was in line with the increase in turnover from construction and operation services. The Target Group's effective tax rate, calculated as income tax divided by profit before taxation, increased to 26.8% in FY2012 from 23.8% in FY2011, primarily due to an increase in the provision for PRC income tax as a result of expiry of tax holiday for certain subsidiaries.

ix) Profit for the year

Enlarged Group

The Enlarged Group's profit for the year increased by HK$449.1 million from a loss of HK$164.2 million in FY2011 to a profit of HK$284.9 million in FY2012. The profit for the year for both the HanKore Group and the Target Group had increased year-on-year, and contributed 4.2% and 94.2% of the Enlarged Group's profit for the year in FY2012 respectively.

HanKore Group

HanKore Group's loss for the period of RMB154.7 million in FY2011 turned into profit for the year of RMB9.6 million in FY2012 primarily as a result of the factors described above.

Target Group

The Target Group's profit for the year increased by 16.2% to HK$268.2 million in FY2012 from HK$230.8 million in FY2011, primarily as a result of the factors described above.

8.4.4 Liquidity and Capital Resources of the Enlarged Group

i) Working Capital

(a) Enlarged Group

The Proposed Directors are of the reasonable opinion that, after taking into account business prospects of the Enlarged Group, the internal resources and the existing available credit facilities of the Enlarged Group, upon Completion, the working capital available to the Enlarged Group is sufficient for its present requirements and for at least 12 months after the Completion Date.

(b) HanKore Group

As at the Latest Practicable Date, none of the entities in the HanKore Group are in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loan which could materially affect its financial position and results or business operations, or the investments by its shareholders.

(c) Target Group

As at the Latest Practicable Date, none of the entities in the Target Group are in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loan which could materially affect its financial position and results or business operations, or the investments by its shareholders.

ii) Cashflow

(a) 1H2014

For the purposes of compilation of the unaudited pro forma consolidated statements of cash flows for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.7954 for 1H2014.

Enlarged Group

During 1H2014, the Enlarged Group made a pre-tax profit of HK$234.8 million. After adjusting for non-cash flow items, bad debts written off, gain on disposal of property, plant and equipment, gain on fair value adjustments, loss on equity-settled share based transaction, effect of foreign exchange rate changes and finance income/expenses, the cash flows before working capital changes was HK$338.2 million. This was used to fund an increase in financial receivables (HK$5.8 million), inventories (HK$5.9 million), trade and other receivables (HK$124.7 million), as well as a decrease in trade and other payables (HK$208.5 million). There was a net cash outflow of HK$47.5 million from operating activities.

Net cash flows used in investing activities amounted to HK$40.0 million due mainly to i) interest received (HK$1.5 million); ii) proceeds from disposal of property, plant, equipment and concession rights (HK$2.1 million); and iii) repayment from loan receivables (HK$49.9 million); offset by i) acquisition of concession rights (HK$9.7 million); and ii) purchase of property, plant and equipment (HK$3.7 million).

Net cash flows from financing activities amounted to HK$152.0 million, due mainly to i) proceeds from bank borrowings (HK$410.6 million); and ii) advances from a fellow subsidiary and intermediate holding company (HK$311.7 million); but offset by i) repayment of bank borrowings (HK$184.7 million); ii) advances to a immediate holding company (HK$200.5 million); iii) payment of transaction costs related to loans and borrowings (HK$2.6 million); and iv) the increase in bank balances pledged (HK$109.5 million).

The Enlarged Group had a net increase in cash and cash equivalents of HK$144.5 million for 1H2014, and its cash and cash equivalents at the end of 1H2014 amounted to HK$778.4 million (excluding restricted bank balances of HK$189.3 million).

HanKore Group

During 1H2014, HanKore Group made a pre-tax loss of RMB82.8 million. After adjusting for non-cash flow items, bad debt written off, gain/loss on fair value adjustments, equity-settled share-based transactions and finance income/expenses, the cash flows before working capital changes was RMB19.4 million. This was used to fund i) an increase in financial receivables (RMB41.3 million); ii) inventories (RMB4.2 million); and iii) trade and receivables (RMB26.4 million); but offset by increase in trade and other payables (RMB32.7 million). As a result, the net cash flows used in operating activities was RMB27.4 million.

Net cash flows used in investing activities amounted to RMB6.5 million due mainly to i) acquisition of concession rights (RMB7.7 million); and ii) purchase of property, plant and equipment (RMB1.6 million); but offset by i) proceeds from disposal of concession rights (RMB1.1 million) and ii) interest received (RMB1.2 million).

Net cash flows from financing activities amounted to RMB91.0 million due mainly to i) exercise of warrants (RMB11.0 million) and ii) net bank borrowing proceeds (RMB191.2 million); but offset by i) interest payment (RMB30.5 million); ii) transaction costs related to loans and borrowings (RMB2.1 million); and iii) increase in bank balances pledged (RMB78.7 million).

HanKore Group had a net increase in cash and cash equivalents of RMB57.1 million for 1H2014, and its cash and cash equivalents as at 30 June 2014 amounted to RMB272.0 million.

Target Group

Net cash used in operating activities for 1H2014 was HK$24.3 million. This amount primarily reflected (i) profit before taxation of HK$247.2 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$80.9 million; (iii) decrease in gross amounts due from customers for contract work of HK$35.5 million; and (iv) substantial decrease in creditors, other payables and accrued expenses of HK$241.6 million.

Net cash generated from investing activities for 1H2014 was HK$48.2 million, primarily as a result of payment from purchase of property, plant and equipment of HK$1.7 million and repayment from loan receivables of HK$49.9 million.

Net cash generated from financing activities for 1H2014 was HK$51.5 million, this amount primarily reflected (i) proceeds from new bank loans of HK$110.2 million; (ii) repayment of bank loans of HK$124.7 million; (iii) increase in amounts due to fellow subsidiaries of HK$134.5 million; (iv) decrease in amounts due to immediate holding company of HK$200.5 million; (v) increase in amounts due to intermediate holding companies of HK$177.3 million; (vi) increase in pledged bank deposits of HK$10.6 million; and (vii) interest paid of HK$34.7 million.

(b) FY2013

For the purposes of compilation of the unaudited pro forma consolidated statements of cash flows for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.7979 for FY2013.

Enlarged Group

During FY2013, the Enlarged Group made a pre-tax profit of HK$374.9 million. After adjusting for non-cash flow items, gain/loss on disposals of service concession rights, property, plant and equipment, loss on fair value adjustments, loss on equity-settled share based transaction, effect of foreign exchange rate changes and finance income/expenses, the cash flows before working capital changes was HK$678.5 million. This was used to fund i) an increase in financial receivables (HK$768.6 million); ii) inventories (HK$5.1 million); and iii) trade and other receivables (HK$140.3 million); but offset by an increase in trade and other payables (HK$318.0 million). The net cash flows generated from operating activities was HK$30.3 million.

Net cash flows used in investing activities amounted to HK$50.5 million due mainly to i) acquisition of intangible assets (HK$0.8 million); ii) purchase of property, plant and equipment (HK$17.3 million); and iii) repayment of amounts due from intermediate holding company (HK$40.1 million); but offset by i) proceeds from disposal of property, plant, equipment and concession rights (HK$3.0 million); and ii) net of cash acquired from acquisition of subsidiaries (HK$4.8 million).

Net cash flows from financing activities amounted to HK$440.4 million due mainly to i) proceeds from the exercise of warrants and share options, issue of shares, bank borrowings and issue of notes (HK$819.2 million); and ii) advances from a fellow subsidiary, immediate holding company and intermediate holding company (HK$176.1 million); but offset by i) repayment of bank borrowings (HK$368.4 million); ii) interest paid (HK$134.8 million); iii) payment of transaction costs related to loans and borrowings (HK$36.6 million); and iv) increase in bank balances pledged (HK$15.0 million).

The Enlarged Group had a net increase in cash and cash equivalents of HK$420.2 million for FY2013, and its cash and cash equivalents at the end of FY2013 amounted to HK$638.6 million.

HanKore Group

During FY2013, HanKore Group made a pre-tax profit of RMB48.1 million. After adjusting for non-cash flow items, gain on disposals of service concession rights, gain/loss on fair value adjustments, equity-settled share-based transactions and finance income/expenses, the cash flows before working capital changes was RMB182.1 million. This was used to i) fund an increase in financial receivables (RMB318.3 million); ii) inventories (RMB5.1 million); and iii) trade and receivables (RMB134.7 million); but offset by increase in trade and other payables (RMB130.8 million). As a result, the net cash flows used in operating activities was RMB148.9 million.

Net cash flows generated from investing activities amounted to RMB2.7 million due mainly to i) acquisition of subsidiaries, net of cash acquired (RMB3.9 million); and ii) interest received (RMB1.2 million); but offset by purchase of property, plant and equipment (RMB4.0 million).

Net cash flows from financing activities amounted to RMB325.1 million due mainly to i) shares issuance (RMB70.5 million); ii) net bank borrowing proceeds (RMB95.6 million); and iii) proceeds from notes issuance (RMB239.2 million); but offset by i) interest payment (RMB44.7 million); ii) transaction costs related to loans and borrowings (RMB29.2 million); and iii) increase in bank balances pledged (RMB15.3 million).

HanKore Group had a net increase in cash and cash equivalents of RMB178.9 million for FY2013, and its cash and cash equivalents at the end of FY2013 amounted to RMB212.4 million.

Target Group

Net cash generated from operating activities in FY2013 was HK$250.3 million. This amount primarily reflected (i) profit before taxation of HK$402.0 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$130.5 million; (iii) increase in gross amounts due from customers from contract work of HK$210.7 million; and (iv) increase in creditors, other payables and accrued expenses of HK$149.6 million.

Net cash used in investing activities in FY2013 was HK$52.4 million, primarily as a result of payment from purchase of property, plant and equipment of HK$12.3 million and increase in amounts due from intermediate holding company of HK$40.1 million.

Net cash used in financing activities in FY2013 was HK$126.3 million, primarily as a result of (i) proceeds from new bank loans of HK$85.9 million; (ii) repayment of bank loans of HK$313.6 million; (iii) increase in amount due to a fellow subsidiary of HK$2.4 million; (iv) increase in amounts due to immediate holding company of HK$167.5 million; (v) increase in amounts due to intermediate holding company of HK$6.2 million; (vi) decrease in pledged bank deposits of HK$4.1 million; and (vii) interest paid of HK$78.8 million.

iii) Capitalisation and indebtedness

HanKore Group

RMB'000	**As at 30 June 2014**	**As at 30 September 2014**
Cash and cash equivalents	380,831	234,243
Indebtedness		
Short term borrowings	183,372	419,364
Long term borrowings	884,016	505,966
Total indebtedness	1,067,388	925,330
Equity attributable to owners of the Company	1,443,786	1,469,716
Total capitalisation and indebtedness	2,511,174	2,395,046

Target Group

HK$'000	**As at 30 June 2014**	**As at 30 September 2014**
Cash and cash equivalents	316,013	221,276
Indebtedness		
Short term borrowings	268,241	261,539
Long term borrowings	559,494	520,662
Total indebtedness	827,735	782,201
Equity attributable to owners of the company	2,951,029	3,076,528
Total capitalisation and indebtedness	3,778,764	3,858,729

8.4.5 *Financial position of the Enlarged Group*

For the purposes of compilation of the unaudited pro forma consolidated statements of financial positions for the Enlarged Group, the audited consolidated financial statements of the HanKore Group were translated from RMB to HK$ using HK$1 = RMB0.7984 as at 30 June 2014.

i) *Non-current assets*

Enlarged Group

Non-current assets amounted to HK$7,958.8 million as at 30 June 2014 and financial receivables amounting to HK$6,200.7 million makes up 77.9% of the non-current assets. The non-current assets included property, plant and equipment of HK$222.3 million, intangible assets of HK$328.9 million, goodwill of HK$1,127.2 million (including goodwill arising from the Proposed Acquisition of HK$1,004.9 million), land use rights of HK$61.9 million, other receivable of HK$17.7 million and financial receivable of HK$6,200.7 million, accounting for 2.8%, 4.1%, 14.2%, 0.8%, 0.2% and 77.9% respectively.

HanKore Group

Non-current assets amounted to RMB2,269.5 million as at 30 June 2014 and financial receivables amounting to RMB1,917.3 million makes up 84.5% of the non-current assets. The water/wastewater treatment plants have concession years ranging between 25 years to 30 years, of which the HanKore Group has a contractual right under concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants.

Non-current assets increased marginally by RMB12.3 million (equivalent to 0.5%) compared to 31 December 2013. The increase was mainly attributable to increase in financial receivables of RMB13.1 million and intangible assets of RMB3.5 million, partially offset by decrease in other receivables of RMB3.4 million.

Target Group

As of December 31, 2011, 2012, 2013 and June 30, 2014, the non-current assets represented 77.7%, 83.4%, 81.0% and 79.7% of the Target Group's total assets, respectively. The key components of the Target Group's non-current assets include fixed assets, intangible assets, other receivables and gross amounts due from customers for contract work. The Target Group's non-current assets increased by 15.6% to HK$4,034.2 million as of December 31, 2012 from HK$3,489.0 million as of December 31, 2011, primarily due to construction of new projects. The Target Group's non-current assets increased by 8.3% to HK$4,368.7 million as of December 31, 2013 from HK$4,034.2 million as of December 31, 2012 primarily due to construction of new projects.

The decrease in the Target Group's non-current assets from HK$4,368.7 million as of 31 December 2013 to HK$4,111.4 million as of 30 June 2014 by 5.9% was primarily caused by decrease in other receivables and gross amounts due from customers for contract work after settlement received during the period.

ii) Current assets

Enlarged Group

As at 30 June 2014, current assets amounted to HK$2,042.4 million, of which HK$994.8 million was contributed by the HanKore Group and HK$1,047.6 million by the Target Group.

HanKore Group

Current assets of RMB697.0 million as at 30 June 2014 had increased significantly by RMB139.8 million or 25.1% compared to 31 December 2013. The increase was mainly attributable to increase in financial receivables of RMB28.2 million and cash and cash equivalents of RMB138.2 million, partially offset by decrease in trade and other receivables of RMB30.8 million.

As at 30 June 2014, trade and other receivables amounted to RMB131.5 million, which mainly consisted of trade receivables of RMB84.1 million and other receivables of RMB36.0 million. Trade receivables are non-interest bearing and are generally on 30 to 90 days terms. Included in other receivables is a consideration receivable of RMB29.3 million due from third parties arising from disposals of service concession rights held by Suqian Plants.

Cash and cash equivalents amounted to RMB380.8 million as at 30 June 2014, consisting of RMB272.0 million of cash on hand and bank balances, as well as RMB108.9 million of short term deposits. The short-term deposits balances relate to bank deposits pledged to bank borrowings and bill payables.

Target Group

As of 31 December 2011, 2012, 2013 and 30 June 2014, the current assets represented 22.3%, 16.6%, 19.0% and 20.3% of the Target Group's total assets, respectively. The key components of the Target Group's current assets include debtors, other receivables, deposits and prepayments, gross amounts due from customers for contract work, pledged bank deposits and cash and cash equivalents. The Target Group's current assets decreased by 19.9% to HK$801.5 million as of 31 December 2012 from HK$1,000.9 million as of 31 December 2011, primarily due to more cash utilized in the construction of projects. The Target Group's current assets increased by 27.5% to HK$1,021.7 million as of 31 December 2013 from HK$801.5 million as of 31 December 2012, primarily due to increase in debtors, other receivables, deposits and prepayments, gross amounts due from customers for contract work and cash and cash equivalents.

The small increase in the Target Group's current assets from HK$1,021.7 million as of 31 December 2013 to HK$1,047.6 million as of 30 June 2014 by 2.5% was primarily caused by operating results during the period.

iii) *Non-current liabilities*

Enlarged Group

Non-current liabilities amounted to HK$2,671.0 million as at 30 June 2014, of which HK$1,416.8 million (equivalent to 53.0%) was contributed by the HanKore Group and HK$1,254.2 million (equivalent to 47.0%) by the Target Group. Loans and borrowings amounting to HK$1,666.7 million made up 62.4% of the non-current liabilities. Other payables amounting to HK$363.1 million made up 13.6% of the non-current liabilities. Deferred tax liabilities amounting to HK$639.4 million made up 23.9% of the non-current liabilities. Other payables amounting to HK$1.8 million made up the remaining non-current liabilities.

HanKore Group

Non-current liabilities of RMB1,131.2 million as at 30 June 2014 had increased by RMB153.2 million (equivalent to 15.7%) compared to 31 December 2013. The increase was attributable to increase in borrowings of RMB143.0 million and deferred tax liabilities of RMB13.4 million, partially offset by decrease in other financial liabilities of RMB3.2 million.

The non-current borrowings amounted to RMB884.0 million as at 30 June 2014, comprising bank borrowings of RMB641.6 million and notes payable of RMB242.4 million. RMB737.3 million of the borrowings are repayable after 1 year but within 5 years while the remaining RMB146.7 million are repayable after 5 years. The secured bank borrowings were secured over intangible assets and financial receivables arising from service concession arrangements. Subsidiaries with bank borrowings totalling RMB206.9 million are restricted from declaring or paying dividends to shareholders until the loans are fully repaid. On 24 July 2013, the Company established the S$300 million MTN. As at 30 June 2014, S$50 million of unsecured fixed rate notes were issued under the MTN. The unsecured fixed rate notes payable are redeemable at their principal amount on the maturity date in August 2015.

Deferred tax liabilities amounted to RMB245.7 million and RMB232.4 million as at 30 June 2014 and 31 December 2013 respectively. The increase was mainly attributable to the temporary differences arising from service concession arrangements.

Other financial liabilities amounted to RMB1.4 million as at 30 June 2014, a decrease of RMB3.2 million from 31 December 2013. The decrease was attributable to decrease in the net change in the fair value of the cross-currency swap.

Target Group

As of 31 December 2011, 2012, 2013 and 30 June 2014, the non-current liabilities represented 81.8%, 75.6%, 72.9% and 67.4% of the Target Group's total liabilities, respectively. The key components of the Target Group's non-current liabilities include bank loans, other payables and deferred tax liabilities. The Target Group's non-current liabilities decreased by 3.4% to HK$2,431.6 million as of 31 December 2012 from HK$2,516.2 million as of 31 December 2011, primarily due to repayment of bank loans. The Target Group's non-current liabilities increased by 2.0% to HK$2,479.1 million as of 31 December 2013 from HK$2,431.6 million as of 31 December 2012, primarily due to increase in amounts due to holding companies for project companies' capital.

The decrease in the Target Group's non-current liabilities from HK$2,479.1 million as of 31 December 2013 to HK$1,254.2 million as of 30 June 2014 by 49.4% was primarily caused by capitalization of shareholders loan of HK$1,210.1 million.

iv) Current liabilities

Enlarged Group

Current liabilities of the Enlarged Group amounted to HK$1,097.2 million as at 30 June 2014, which comprised loans and borrowings, trade and other payables and current tax liabilities. Loans and borrowings, amounting to HK$498.0 million, makes up 45.4% of the current liabilities. Trade and other payables, amounting to HK$577.6 million, make up 52.6% of the current liabilities. Current tax liabilities, amounting to HK$21.7 million, make up the remaining 2.0% of the current liabilities.

HanKore Group

Current liabilities of RMB391.8 million as at 30 June 2014 had decreased by RMB92.4 million (equivalent to 19.1%) compared to 31 December 2013. The increase was mainly attributable to decrease in other financial liabilities of RMB114.6 million and trade and other payables of RMB28.9 million, partially offset by increase in borrowings of RMB58.0 million.

Other financial liabilities amounted to RMB0.8 million as at 30 June 2014, a decrease of RMB114.6 million from 31 December 2013, attributable to i) exercise of warrants amounting to RMB31.1 million and net decrease in the fair value of the warrants by RMB9.5 million; and ii) extinguishment of contingent consideration payable (which relates to the acquisition of subsidiaries) amounting to RMB93.0 million.

Trade and other payables amounting to RMB207.3 million as at 30 June 2014 had decreased by RMB28.9 million from 31 December 2013, mainly attributable to decrease in construction payables for service concession arrangements by RMB52.7 million, but partially offset by increase in other creditors of RMB22.4 million which comprise a guarantee deposit of RMB25.3 million from a Director of a subsidiary.

Target Group

As of 31 December 2011, 2012, 2013 and 30 June 2014, the current liabilities represented 18.2%, 24.4%, 27.1% and 32.6% of the Target Group's total liabilities, respectively. The key components of the Target Group's current liabilities include bank loans and creditors, other payables and accrued expenses. The Target Group's current liabilities increased by 40.6% to HK$786.2 million as of 31 December 2012 from HK$559.1 million as of 31 December 2011, primarily due to increase in construction payables in relation to new project construction. The Target Group's current liabilities increased by 17.0% to HK$920.0 million as of 31 December 2013 from HK$786.2 million as of 31 December 2012, primarily due to increase in construction payables in relation to new project construction.

The decrease in the Target Group's current liabilities from HK$920.0 million as of 31 December 2013 to HK$607.5 million as of 30 June 2014 by 34.0% was primarily caused by decrease in construction payables after settlement.

v) Shareholders' equity

Enlarged Group

As at 30 June 2014, equity attributable to owners of the Company amounted to HK$5,887.0 million. The share capital and reserves of the Enlarged Group amounted to HK$2,547.2 million and HK$3,339.8 million respectively.

HanKore Group

Equity attributable to owners of the Company of RMB1,443.6 million as at 30 June 2014 had increased by RMB91.4 million (equivalent to 6.8%) compared to 31 December 2013. The increase was mainly attributable to increase in share capital of RMB19.3 million and reserves of RMB72.1 million.

Share capital amounting to RMB455.2 million as at 30 June 2014 had increased by RMB19.3 million from 31 December 2013, attributable to i) issue of shares related to business combination amounting to RMB14.4 million; and ii) issue of ordinary shares for exercise of warrants before share consolidation amounting to RMB4.8 million.

Reserves amounting to RMB988.6 million as at 30 June 2014 had increased by RMB72.1 million from 31 December 2013, attributable to increase in share premium and share option of RMB142.5 million and RMB26.5 million respectively, but offset by increase in accumulated loss of RMB96.9 million.

Target Group

As of 31 December 2011, 2012, 2013 and 30 June 2014, the total equity attributable to equity shareholders represented 73.3%, 80.9%, 82.8% and 89.5% of the Target Group's total equity, respectively. The Target Group's total equity attributable to equity shareholders increased by 26.1% to HK$1,308.2 million as of 31 December 2012 from HK$1,037.3 million as of 31 December 2011, primarily due to increase in retained profits and exchange reserve. The Target Group's total equity attributable to equity shareholders increased by 26.0% to HK$1,648.9 million as of 31 December 2013 from HK$1,308.2 million as of 31 December 2012, primarily due to increase in retained profits and exchange reserve.

The increase in the Target Group's total equity attributable to equity shareholders from HK$1,648.9 million as of 31 December 2013 to HK$2,951.0 million as of 30 June 2014 by 79.0% was primarily caused by capitalization of shareholders loan as explained above.

8.4.6 *Capital expenditures, Divestments and Commitments of the Enlarged Group*

i) Capital expenditure

HanKore Group

HanKore Group's capital expenditure includes expenditure on property, plant and equipment and intangible assets (excluding service concession rights and goodwill). The details for major capital expenditure for the financial year ended 31 December 2011, 2012 and 2013 and 1H2014 are as follows:

RMB'000	**FY2011**	**FY2012**	**FY2013**	**1H2014**
Motor vehicles and office equipment	2,221	2,373	3,088	1,581
Leasehold improvement	—	—	354	—
Computer software	302	645	677	—
Machinery	—	—	590	—
Construction in progress	—	7,700	—	—

Target Group

(a) Historical Capital Expenditures

The Target Group's major capital expenditures consist primarily of expenditures to acquire land use rights, construct wastewater treatment facilities and purchase property, plant and equipment.

For the years ended 31 December 2011, 2012, 2013 and the 1H2014, the Target Group's expenditures on acquisition of property, plant and equipment and interest in leasehold land held for own use under operating leases amounted to HK$59.9 million, HK$88.3 million, HK$12.3 million and HK$1.7 million, respectively.

These capital expenditures were funded by bank borrowings, funds generated from the Target Group's operating activities and capital contributions from the Target Group's shareholders.

(b) Planned Capital Expenditures

The Target Group's actual capital expenditures may differ from the amounts set out above due to various factors, including the Target Group's future cash flows, results of operations and financial condition, changes in China and the world economy, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in China and other factors. The Target Group may also pursue expansion through internal development, acquisitions of existing operations, investments in other businesses, or joint ventures with third parties, which may cause the Target Group's capital expenditures to increase.

ii) Divestment of assets

HanKore Group

On 31 May 2011, the HanKore Group entered into an agreement with a third party to dispose of its 100.0% interest in the issued share capital of Hubei New Environment Water Co., Ltd (湖北新环境水务有限公司) for a cash consideration of RMB6,200,000, resulting in a net loss on disposal of RMB4,042,000 being recognised in the HanKore Group's profit or loss for the year ended 31 December 2011. According to the terms of the agreement, the consideration consists of three instalments (i) RMB3,000,000 being the deposit received and the first instalment payment, (ii) RMB2,700,000 being the second instalment receivable, and (iii) RMB500,000 being the third and final instalment receivable. As at the Latest Practicable Date, the three instalments have been paid to the HanKore Group.

On 31 May 2011, the HanKore Group entered into an agreement with a third party to dispose of its 100.0% interest in the issued share capital of Golden Idea Bio-Engineering (Dongguan) Co., Ltd (创思生物技术工程(东莞)有限公司) ("**Golden Idea**") and Anhui Jin Di Co., Ltd (宣城金迪水务有限公司) ("**Anhui Jin Di**") for a consideration of RMB126,757,000, resulting in a gain of RMB10,137,000 being recognised in the HanKore Group's profit or loss for the year ended 31 December 2011. According to the terms of the agreement, the consideration is offset against the HanKore Group's intercompany receivables.

The aggregate value of the assets and liabilities of the subsidiaries disposed of and the effect of the disposal on the HanKore Group's consolidated statement of cash flows are as follows:

Identified assets and liabilities disposed	**FY2011 (RMB'000)**
Property, plant and equipment	2,471
Land use rights	24,069
Deposits for acquisition of land use rights	1,401
Inventories	34
Trade and other receivables	252,847
Cash and cash equivalents	566
Trade and other payables	(155,586)
Total identifiable net assets	125,802
Non-controlling interests	975
	126,777
Realisation of foreign currency translation difference	85
Gain on disposal	6,095
Consideration for disposal	132,957
Less: Cash consideration receivable	(3,200)
Less: Set-off of payable balances	(126,757)
Less: Cash and cash equivalents in subsidiaries disposed of	(566)
Net cash inflow on disposal of subsidiaries	2,434

Target Group

During the year ended 31 December 2011, the Target Group had terminated the Jiangyin Sewage Piping Network Transfer Agreement and received refunds of RMB61.3 million in FY2010 and RMB500.0 million in FY2011.

iii) *Capital commitments*

HanKore Group

The HanKore Group has the following commitments as at the reporting date:

	As at 31 December			As at 30 June
	2011 (RMB'000)	2012 (RMB'000)	2013 (RMB'000)	2014 (RMB'000)
Capital expenditure on purchase of property, plant and equipment and construction of plants:				
- contracted but not provided for in the financial statements	54,372	52,196	144,634	155,946

Target Group

The Target Group had no outstanding purchase commitments (31 December 2013: HK$33.5 million) in connection with the Target Group's construction contracts not provided for in the financial statements as at 30 June 2014.

The Target Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of these leases includes contingent rentals.

iv) *Other commitments*

HanKore Group

At the reporting date, the HanKore Group had entered into several operating lease commitments for office premises and staff accommodation. These leases do not contain renewal options and there were no restrictions placed upon the HanKore Group by entering into these leases. At the reporting date, the future minimum lease payables under these non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2011 (RMB'000)	2012 (RMB'000)	2013 (RMB'000)	2014 (RMB'000)
Within 1 year	1,602	1,670	3,298	3,576
After 1 year but within 5 years	1,981	796	5,576	3,975
	3,583	2,466	8,874	7,551

Target Group

Non-adjusting events after the balance sheet date

On 24 July 2014, CEWIL entered into agreements with Veolia Water S.A., the non-controlling shareholder of EB-VW HK Holding Company Limited (a non-wholly owned subsidiary of CEWIL) and the controlling shareholder of Qingdao Veolia Water Operating Company Limited, an associate of CEWIL, pursuant to which Veolia Water S.A. agreed to sell and CEWIL agreed to purchase the 40.0% equity interest in EB-VW HK Holding Company Limited and 78.0% equity interest in Qingdao Veolia Water Operating Company Limited at considerations of RMB70,891,700 and RMB1,800,000 respectively. EB-VW HK Holding Company Limited was also renamed to Everbright Water (Qingdao) Holdings Limited following the transactions. Upon completion of the transactions, EB-VW HK Holding Company Limited became a wholly-owned subsidiary of CEWIL whereas Qingdao Veolia Water Operating Company Limited became a non-wholly owned subsidiary of CEWIL.

8.4.7 Foreign exchange exposure of the Enlarged Group

HanKore Group

The HanKore Group is exposed to foreign currency risk when transactions such as expenses and borrowings are denominated in currencies other than RMB. The currencies giving rise to this risk are primarily S$, HK$ and United States dollar (US$).

The Company entered into a US$/S$ cross-currency swap with a financial institution on 19 September 2013. On initial exchange date, being 25 September 2013, the Company received USD28,766,582 in exchange for S$35,800,000. On maturity, being 1 August 2015, the HanKore Group will receive S$50,000,000 in exchange for USD40,176,778. The HanKore Group classifies the cross currency swap as financial liabilities at fair value through profit or loss.

i) Exposure to currency risk

The summary of quantitative data about the HanKore Group's exposure in foreign currency risk is provided to management of the HanKore Group based on its risk management policy was as follows:

	S$ (RMB'000)	HK$ (RMB'000)	US$ (RMB'000)
31 December 2011			
Financial assets			
Cash and cash equivalents	6,570	1,632	7
Trade and other receivables	—	1,154	—
	6,570	2,786	7
Financial liabilities			
Trade and other payables	(1,295)	(144)	—
Other financial liabilities	(7,236)	—	—
	(8,531)	(144)	—
Net financial (liabilities)/assets	(1,961)	2,642	7
31 December 2012			
Financial assets			
Cash and cash equivalents	737	326	7
Trade and other receivables	397	1,353	—
	1,134	1,679	7
Financial liabilities			
Trade and other payables	(2,457)	(5,725)	—
Other financial liabilities	(5,891)	—	—
	(8,348)	(5,725)	—
Net financial (liabilities)/assets	(7,214)	(4,046)	7

	S$ (RMB'000)	HK$ (RMB'000)	US$ (RMB'000)
31 December 2013			
Financial assets			
Cash and cash equivalents	45,918	518	82,238
Trade and other receivables	5,063	451	—
	50,981	969	82,238
Financial liabilities			
Other financial liabilities	(115,421)	—	—
Borrowings	(229,567)	—	—
Trade and other payables	(9,629)	(144)	—
	(354,617)	(144)	—
Net financial (liabilities)/assets	(303,636)	825	82,238
Cross-currency swap	—	—	(4,597)
Net exposure	(303,636)	825	77,641
30 June 2014			
Cash and cash equivalents	40,353	25,497	675
Trade and other receivables	2,977	598	0
	43,330	26,095	675
Financial liabilities			
Borrowings	(242,398)	—	—
Other financial liabilities	(795)	—	—
	(243,193)	—	—
Net financial (liabilities)/assets	(199,863)	26,095	675
Cross-currency swap	—	—	(1,405)
Net exposure	(199,863)	26,095	(730)

ii) Sensitivity analysis

A change of 10.0% (taking into consideration both strengthening and weakening aspect) of the following currencies against at the reporting date would (decrease)/increase the HanKore Group's (loss)/profit before income tax by the amounts as shown below. This analysis assumes that all other variables, in particular interest and tax rates, remain constant.

	(Loss)/Profit before tax			
		Year ended 31 December		**6 months ended 30 June**
	2011	**2012**	**2013**	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000
S$ against RMB				
- strengthened	(196)	(721)	(30,364)	(19,986)
- weakened	196	721	30,364	19,986

	(Loss)/Profit before tax			
		Year ended 31 December		**6 months ended 30 June**
	2011	**2012**	**2013**	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000
HK$ against RMB				
- strengthened	264	(405)	83	2,610
- weakened	(264)	405	(83)	(2,610)
USD against RMB				
- strengthened	1	1	7,764	(73)
- weakened	(1)	(1)	(7,764)	73

Target Group

Majority of the Target Group's transactions are denominated in the functional currency of the entity to which they relate. Presently, there is no hedging policy with respect to the foreign exchange exposure. The Target Group's transactional currencies are RMB and HK$ as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in RMB and HK$, the Target Group's transactional foreign exchange exposure was insignificant.

9. RISK FACTORS

An investment in the Shares of the Enlarged Group following Completion involves a number of risks, some of which could be substantial and/or are inherent in the Enlarged Group's business, including market, liquidity, credit, operational, legal and regulatory risks relating to the HanKore Group and the Target Group.

To the best of the knowledge and belief of the Proposed Directors, all risk factors which are material to Shareholders in making an informed judgment of the HanKore Group, the Target Group, the Proposed Acquisition and the Enlarged Group have been set out in Appendix E titled "Risk Factors" to this Circular.

The risk factors set out in Appendix E titled "Risk Factors" to this Circular relate principally to the industry in which the Enlarged Group will operate following the completion of the Proposed Acquisition. Other considerations relate principally to general economic, political and regulatory conditions.

The risk factors set out in Appendix E titled "Risk Factors" to this Circular are not the only risks which the Enlarged Group face. Some risks are not yet known to the HanKore Group, the Target Group and the Vendor and there may be others which they currently believe are not material but may be subsequently turn out to be so. Factors that affect the price of the Shares may change and the risk factors set out in Appendix E titled "Risk Factors" to this Circular should not be construed as a comprehensive listing of all the risk factors and the listing is not set out in any particular order.

If any of the following considerations, risks and uncertainties set out in Appendix E titled "Risk Factors" to this Circular develops into actual events, the business operations, financial condition, results, cash flow and prospects of the Enlarged Group could be, directly or indirectly, materially and adversely affected. In the event that any of the foregoing occurs, the trading price of the Shares could fluctuate and/or decline and Shareholders may lose all or part of their investment in the Shares.

This Circular also contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results could differ materially from those anticipated or implied in these forward-looking statements as a result of certain factors set out in Appendix E titled "Risk Factors" to this Circular and elsewhere of this Circular.

Shareholders should evaluate carefully the information in Appendix E titled "Risk Factors" to this Circular and the other information in this Circular before deciding on the Proposed Transactions and how to cast their votes at the SGM.

10. MATERIAL CONTRACTS

The HanKore Group has entered into the following material contracts which were not in the ordinary course of business within the two years preceding the Latest Practicable Date:

Contract	**Parties**	**Date**	**Nature of Contract**	**Consideration**
Framework Agreement	(1) China Everbright Water Investments Limited (2) Company	30 December 2013	Proposed acquisition by the Company of all the investments of China Everbright International Limited in the environmental water sector	Not Applicable
Acquisition Agreement	(1) China Everbright Water Holdings Limited (2) Company	2 June 2014	Company agreed to acquire and China Everbright Water Holdings Limited agreed to sell, the entire issued and paid-up share capital of China Everbright Water Investments Limited	RMB5,811,267,353
Multicurrency Medium Term Note Programme ("**MTN**")(1)	(1) Company as issuer (2) DBS Bank Ltd. as arranger and dealer (3) DB Trustee (Hong Kong) Limited as notes trustee and security trustee	23 July 2013	S$300,000,000 multicurrency medium term note programme pursuant to an information memorandum dated 23 July 2013, whereby the Company will issue notes (the "**Notes**") from time to time on a syndicated or non-syndicated basis, and the maximum aggregate principal amount of the notes outstanding at any time shall be S$300,000,000 or as may be agreed between the Company and DBS Bank Ltd. as the arranger	Please refer directly below for the consideration paid pursuant to the Programme Agreement, Trust Deed and Agency Agreement.

Contract	Parties	Date	Nature of Contract	Consideration
Programme Agreement relating to the MTN (the "**Programme Agreement**")	(1) Company (2) DBS Bank Ltd.	23 July 2013	Pursuant to the Programme Agreement, the Company proposed to issue from time to time medium term notes in an aggregate principal amount outstanding at any one time not exceeding the programme limit of S$300,000,000 or its equivalent in other currencies, and DBS Bank Ltd., as one of the dealers of this agreement, may from time to time subscribe or procure subscribers for such notes.	The Company agreed to pay to the relevant dealers of this agreement the commission or fee (if any) agreed between the Company and relevant dealers.
Trust Deed relating to the MTN (the "**Trust Deed**")	(1) Company (2) DB Trustees (Hong Kong) Limited (the "**Notes Trustee**" and "**Security Trustee**")	23 July 2013	DB Trustees (Hong Kong) Limited, as Notes Trustee, will act as trustee of the Trust Deed, and as Security Trustee, will act as trustee of the security documents executed to secure or assure the obligations of the Company for the payment of all sums which are or at any time may be or become due from or owing by the Company pursuant to the issuance of notes (with coupons attached on issue, where appropriate) under the MTN, for the benefit of the couponholders and noteholders.	The Company shall, until the trusts are finally wound up, pay to each of the Notes Trustee and Security Trustee remuneration for its ordinary services as may be agreed between the Company and the Notes Trustee or the Security Trustee, as the case may be.

Contract	Parties	Date	Nature of Contract	Consideration
Agency Agreement relating to the MTN (the "**Agency Agreement**")	(1) Company (2) Deutsche Bank AG, Hong Kong Branch (3) Deutsche Bank AG, Singapore Branch (4) DB Trustees (Hong Kong) Limited	23 July 2013	By the Agency Agreement, the Company appointed Deutsche Bank AG, Hong Kong Branch, Deutsche Bank AG, Singapore Branch and DB Trustees (Hong Kong) Limited as agents to act on its behalf in relation to the issue of notes pursuant to the Programme Agreement relating to the MTN.	The Company will pay Deutsche Bank AG, Hong Kong Branch (as the issuing and paying agent) the commissions and fees set out in a letter dated on or about the date of the Agency Agreement, for apportionment of such moneys among the abovementioned agent and the other agents.
Account Charge relating to the MTN	(1) Company (2) DB Trustees (Hong Kong) Limited	1 August 2013	The Company agreed to create an account charge in favour of the Security Trustee, as security trustee for the (i) noteholders; (ii) couponholders; (iii) Notes Trustee; and (iv) Security Trustee (collectively, the "**Secured Parties**"). The Security Trustee had agreed, pursuant to the Trust Deed, to act as security trustee and to hold the security created by this deed on trust for the Secured Parties.	Not Applicable
Cross-Currency Swap Agreement	(1) Company (2) DBS Bank Ltd.	19 September 2013	The Company entered into a cross-currency swap with a DBS Bank Ltd. The swap will be settled in August 2015, where the Company will pay SGD50,000,000 and receive an agreed amount of USD40,176,778.	S$50,000,000

Contract	Parties	Date	Nature of Contract	Consideration
2002 ISDA Master Agreement	(1) Company (2) DBS Bank Ltd.	19 September 2013	This agreement was entered into in relation to the Cross-Currency Swap Agreement. The Cross-Currency Swap Agreement will supplement and form part of this 2002 ISDA Master Agreement.	S$50,000,000
Agreement for the acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd. (the "**Tongyong Acquisition**")	(1) Zhang Juping (2) Zhang Mingyin (3) Jiangsu Tongyong Environment Group Co., Ltd. (4) Company	29 November 2012	The Company entered into an acquisition agreement to acquire the entire issued and paid up share capital in Jiangsu Tongyong Environment Engineering Co., Ltd., from Zhang Juping, Zhang Mingyin and Jiangsu Tongyong Environment Group Co., Ltd. (collectively, the "**Jiangsu Vendors**"). The Company intends to pay the consideration of RMB138 million by the issue of 540 million ordinary shares (out of which, 180 million shares are contingent consideration) at a share price of S$0.05 to a company nominated by the Jiangsu Vendors. The 540 million shares will be split into Tranche 1 Consideration Shares and Tranche 2 Consideration Shares.	RMB138 million
First Supplemental Agreement to the Tongyong Acquisition	(1) Zhang Juping (2) Zhang Mingyin (3) Jiangsu Tongyong Environment Group Co., Ltd. (4) Jiangsu Tongyong Environment Engineering Co., Ltd. (5) Company	16 January 2013	The parties entered into this agreement to vary the terms of the allotment and issue of the Tranche 1 Consideration Shares and Tranche 2 Consideration Shares.	Not Applicable

Contract	Parties	Date	Nature of Contract	Consideration
Second Supplemental Agreement to the Tongyong Acquisition	(1) Zhang Juping (2) Zhang Mingyin (3) Jiangsu Tongyong Environment Group Co., Ltd. (4) Jiangsu Tongyong Environment Engineering Co., Ltd. (5) Company	29 November 2013	It was agreed among the parties that pursuant to the share consolidation exercise of the Company on 4 November 2013 whereby the Company consolidated every 10 existing ordinary shares of par value HK$0.10 into 1 ordinary share of par value HK$1.00, the maximum number of Tranche 2 Consideration Shares be adjusted from a maximum of 180 million shares to a maximum of 18 million consolidated shares.	Not Applicable
Third Supplemental Agreement to the Tongyong Acquisition	(1) Zhang Juping (2) Zhang Mingyin (3) Jiangsu Tongyong Environment Group Co., Ltd. (4) Jiangsu Tongyong Environment Engineering Co., Ltd. (5) Company	10 April 2014	By this agreement, the Jiangsu Vendors agreed to unconditionally waive their right to receive cash payment from the Company, following the completion of the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Engineering Co., Ltd. on 14 March 2014.	Not Applicable

Note:

(1) The Proposed Acquisition may or will result in:

(a) a breach of Clause 19.1.34 of the Trust Deed and condition 3(c)(iii) of the Notes (as contained in Schedule 1 Part II to the Trust Deed) (the "**Terms and Conditions**"), both of which provide that the Company will not, unless required by law, without the prior consent of each of the Notes Trustee and the Security Trustee or the prior approval of the holders of the Notes (the "**Noteholders**") by way of an extraordinary resolution, undertake, permit or effect any re-organisation, amalgamation, reconstruction, take-over, merger or consolidation with any other company or person or any other schemes of compromise or arrangement affecting its present constitution;

(b) the occurrence of a potential event of default or (as the case may be) event of default under condition 9(b) of the Terms and Conditions, which provide that if the Company does not perform or comply with any one or more of its obligations under any of the relevant transaction documents or any of the Notes, and if that default is capable of remedy, it is not remedied within 21 days of the earlier of (i) the Trustee giving written notice of the failure to perform or comply to the Company and (ii) the Company being aware of the failure to perform or comply, the Notes Trustee at its discretion may, and if so requested by holders of at least 25.0% in principal amount of the Notes then outstanding or if so directed by an extraordinary resolution shall, give notice to the Company that the Notes are immediately repayable; and

(c) the occurrence of a change of shareholding event as provided under condition 5(e)(ii) of the Terms and Conditions, whereby Chen Dawei, David ceases to be the single largest shareholder of the Company. In the event that occurs, the Company will, within seven days of such occurrence, give notice to the Noteholders of the occurrence of such event ("**Notice**") and shall, at the option of the holder of any Note, redeem such Note at 101.0% of its redemption amount, together with interest accrued to the date fixed for redemption, on the date falling 60 days from the date of the Notice.

As at the Latest Practicable Date, the Company has commenced the consent solicitation to seek the approval of Noteholders, by way of an extraordinary resolution to, inter alia, subject to the payment of the early consent fee or (as the case may be) the standard consent fee (each as defined in the Consent Solicitation Statement dated 6 November 2014 (the "**Consent Solicitation Statement**"):

(a) waive the non-compliance with clause 19.1.34 of the Trust Deed and condition 3(c)(iii) of the Terms and Conditions, which may or will occur as a result of the Proposed Acquisition;

(b) waive the occurrence of the potential event(s) of default or (as the case may be) event(s) of default under condition 9(b) of the Terms and Conditions, in each case, which may or will occur as a result of the Proposed Acquisition;

(c) waive all the requirements, covenants and terms in the Trust Deed and the Notes, in each case, which may or will be breached as a result of the Proposed Acquisition;

(d) authorise, where applicable, the Notes Trustee to execute all documents, notices, forms, instruments, consents or arrangements and also to concur in and execute and do all acts, things and documents as the Notes Trustee may consider necessary, desirable or expedient to give effect to paragraphs (a) to (c) above,

all as more fully described in the Consent Solicitation Statement. The Proposed Acquisition will not be completed if the approval of Noteholders is not obtained.

Save for the contracts set out in this section, on the SGXNET, in the Company's annual reports, or any publicly available information on the Company, the HanKore Group has not entered into any contract, not being a contract entered into in the ordinary course of business, within the two (2) years preceding the Latest Practicable Date.

11. MATERIAL LITIGATION

As at the Latest Practicable Date, the HanKore Group has not engaged in any legal or arbitration proceedings (either as plaintiff or defendant), including those which are pending or known to be contemplated, which may have or have had in the 12 months before the Latest Practicable Date, a material effect on the HanKore Group's financial position or profitability, and the Directors have no knowledge of any proceedings pending or threatened against the HanKore Group or any facts likely to give rise to any litigation, claims or proceedings which might materially affect the financial position or the business of the HanKore Group.

12. NO MATERIAL EFFECT ON FINANCIAL POSITION OF THE COMPANY

Save as disclosed in Section 8 titled "Management's Discussion and Analysis of Results of Operations and Financial Position of the Enlarged Group", Section 10 titled "Material Contracts", Appendix E titled "Risk Factor" and Appendix J titled "Audited Consolidated Financial Statements of HanKore Environment Tech Group Limited and its Subsidiaries for the Years Ended 31 December 2011, 2012 and 2013 and the Six Months Ended 30 June 2014" to this Circular, as at the Latest Practicable Date, the Directors are not aware of any event which has occurred since the last audited balance-sheet date of 30 June 2014 and up to the Latest Practicable Date which may have a material effect on the financial position and results of the Company.

13. NO MATERIAL EFFECT ON FINANCIAL POSITION OF THE TARGET COMPANY

Save as disclosed in Section 3.1 titled "History and Development", Section 4 titled "Selected Consolidated Financial Information", Section 5 titled "Management's Discussion and Analysis of Financial Position and Results of Operations" and Section 8 titled "Material Contracts of the Target Group" of the Target Letter, and Appendix I to this Circular titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Six Months ended 30 June 2014", the directors of the Target Company are not aware of any event which has occurred since the last audited balance-sheet date of 30 June 2014 and up to the Latest Practicable Date which may have a material effect on the financial position and results of the Target Company.

14. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

14.1 Interest of Directors and Substantial Shareholders in Shares

As at the Latest Practicable Date[(1)], the interests of Directors and Substantial Shareholders of the Company in the issued and paid-up share capital of the Company as recorded in the Register of Directors' Shareholdings and the Register of Substantial Shareholders maintained pursuant to sections 164 and 88, respectively, of the Companies Act are as follows:

	Direct Interest		Deemed Interest	
Name	**Number of Shares**	**% of total issued Shares**	**Number of Shares**	**% of total issued Shares**
Directors				
Chen Dawei, David[(2)]	—	—	84,189,596	16.49
Nie Jian Sheng	—	—	—	—
Yau Wing-Yiu	—	—	—	—
Lin Zhe Ying	—	—	—	—
Chen Da Zhi	—	—	—	—
Lim Yu Neng, Paul[(3)]	—	—	100,000	0.02
Lee Kheng Joo	—	—	—	—
Cheng Fong Yee, Fonda	—	—	—	—
Substantial Shareholders of the Company (other than Directors)				
Giant Delight Holdings Limited	84,189,596	16.49	—	—
Wang Yu Huei	71,610,700[(4)]	14.03	—	—
FIL Limited	38,295,000[(5)]	7.50	—	—

Notes:

(1) As at the Latest Practicable Date, the issued and fully-paid up capital of the Company is HK$510,482,894 comprising 510,482,894 Shares.

(2) As at the Latest Practicable Date, Chen Dawei, David is the sole shareholder and director of Giant Delight Holdings Limited. Accordingly, he is deemed interested in 84,189,596 Shares held by Giant Delight Holdings Limited, by virtue of section 7 of the Companies Act.

(3) As at the Latest Practicable Date, Lim Yu Neng, Paul is deemed interested in 100,000 Shares held by Citibank Nominees Singapore Pte. Ltd.

(4) As at 2 October 2014.

(5) As at 25 September 2014.

14.2 Interest of Directors and Substantial Shareholders of the Company in the Proposed Transactions

Save as disclosed in Section 14.1 titled "Interest of Directors and Substantial Shareholders in Shares" of the HanKore Letter, none of the Directors or Substantial Shareholders or Controlling Shareholders of the Company has any interest, direct or deemed, in the Proposed Transactions.

14.3 No Difference in Voting Rights

As at the Latest Practicable Date, the Shares held by the Directors or Substantial Shareholders and/or Controlling Shareholders of the Company do not carry different voting rights from other Shares.

15. DIRECTORS' RECOMMENDATIONS

15.1 Proposed Transactions

Having considered and reviewed, amongst other things, the terms and conditions, rationale, financial effects and risk factors of the Proposed Transactions set out in this Circular, the Directors are of the opinion that:

(a) the Proposed Acquisition;

(b) the proposed allotment and issue of the Consideration Shares;

(c) the appointment of Chen Xiaoping as a new director upon completion of the Proposed Acquisition;

(d) the appointment of Wang Tianyi as a new director upon completion of the Proposed Acquisition;

(e) the appointment of An Xuesong as a new director upon completion of the Proposed Acquisition;

(f) the appointment of Yang Zhiqiang as a new director upon completion of the Proposed Acquisition;

(g) the proposed variation of the general share issue mandate upon completion of the Proposed Acquisition; and

(h) the proposed change of the Company's name to "China Everbright Water Limited (中国光大水务有限公司)",

are in the interest of the Company. Accordingly, the Directors recommend that Shareholders vote in favour thereof.

15.2 Proposed Whitewash Resolution

The Independent Directors, having considered and reviewed, amongst other things, the advice from the IFA, the terms and conditions, rationale, financial effects and risk factors of the Proposed Transactions and all other relevant information set out in this Circular, concur with the advice given by the IFA in respect of the Proposed Whitewash Resolution and accordingly they recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.

The Concert Parties Group, as well as parties not independent thereof, will be abstaining from voting on the Proposed Whitewash Resolution.

16. CORPORATE SOCIAL RESPONSIBILITY

As an environmental protection enterprise involved in processing wastewater, the Enlarged Group places social responsibilities as equally important as the economic achievement. In addition to striving for operational excellence, the Enlarged Group is committed to being a responsible corporate citizen that safeguards the environment, engages with the community and cares for its stakeholders. The Enlarged Group seeks to achieve the objectives by leveraging on its technology, resources and expertise.

Safeguard the Environmental

The Enlarged Group is keen to reduce the impact on the environment from its daily operations. To fulfil and exceed the expectations of its stakeholders, the Enlarged Group is dedicated to implementing various measures to strengthen its environmental performance, such as ensuring all of its operating plants have been ISO 14001 certified and meet the international standards of environmental management system. The Enlarged Group will also establish a structured and systematic mechanism to integrate environmental safeguards in project planning, preparation, design and implementation stage.

Engage with the Community

The Enlarged Group is enthusiastic about developing close long-term relationship with the communities and create better living environment for the people. The Enlarged Group seeks to put in great efforts in engaging with the community through volunteerism, environmental protection education, disaster relieve and philanthropy. The Enlarged Group will strongly encourage its employees to volunteer their time and skills for community engagement activities and will provide the necessary platforms for the employees to get involved.

Care for the Stakeholders

The key stakeholders of the Enlarged Group include employees, governments, shareholders, business partners, non-government organisations. The Enlarged Group has developed a stakeholder participants plan to describe its strategy and programme for engaging with the stakeholders in a culturally appropriate manner at different stages in the project cycle. The goal is to provide opportunities for stakeholders to express their views and concerns, and allow the Enlarged Group to consider and address the relevant issues. The Enlarged Group is committed to implement stakeholder participants plan diligently, and achieve mutual benefits for both the Enlarged Group and the stakeholders.

17. SPECIAL GENERAL MEETING

The SGM, notice of which is set out in this Circular, will be held at Pan Pacific Singapore, Ocean 1-3, Level 2, 7 Raffles Boulevard, Marina Square, Singapore 039595 on 5 December 2014 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the ordinary and special resolutions set out in the Notice of SGM.

18. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the SGM and who wish to appoint a proxy to attend and vote on their behalf should complete, sign and return the relevant proxy form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the office of the Company at 9 Battery Road, Straits Trading Building, #20-02, Singapore 049910, not less than 48 hours before the time set for the SGM. The completion and sending of the Proxy Form by a Shareholder does not preclude him from attending and voting in person at the SGM if he wishes to do so, in place of his proxy.

Depositors with Shares credited to their Securities Accounts who wish to attend and vote at the SGM or appoint a proxy, must complete, sign and return the relevant Proxy Form completed by CDP in accordance with the instructions printed thereon as soon as possible and in any event, so as to reach the office of the Company's Singapore Share Transfer Agent Boardroom Corporate & Advisory Services Pte Ltd at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time set for the SGM. A Depositor with Shares credited to his Securities Account shall not be entitled to attend the SGM and to speak and vote thereat or appoint a proxy unless his name appears on the Depository Register maintained by the CDP at least 48 hours before the time set for the SGM.

19. RESPONSIBILITY STATEMENTS BY DIRECTORS

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular (other than the Target Letter and information relating to the Target Group and the Vendor) and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Transactions and the HanKore Group, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

20. RESPONSIBILITY STATEMENT BY TARGET COMPANY'S DIRECTORS

The directors of the Target Company collectively and individually accept full responsibility for the accuracy of the information contained in this Circular relating to the Target Group and in the Target Letter, and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular and the Target Letter constitute full and true disclosure of all material facts about the Target Group, and the directors of the Target Company are not aware of any facts the omission of which would make any statement in this Circular relating to the Target Group and the Target Letter misleading. Where information in this Circular relating to the Target Group and the Target Letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the directors of the Target Company has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular and the Target Letter in its proper form and context.

21. RESPONSIBILITY STATEMENT BY THE FINANCIAL ADVISER

DBS Bank Ltd., the financial adviser to the Company, confirms that to the best of its knowledge and belief, after having made all reasonable enquiries, and based on the information provided by or on behalf of the HanKore Group, the Target Group and the Vendor, this Circular constitutes full and true disclosure of all material facts about the Proposed Transactions and the Enlarged Group, and it is not aware of any facts the omission of which would make any statement about the Proposed Transactions and the Enlarged Group in this Circular (other than Appendices A, B, D, H, I, J and K) misleading. Where information has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of DBS Bank Ltd. has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

22. RESPONSIBILITY STATEMENT BY NOMURA

Nomura International (Hong Kong) Limited, the financial adviser to the Vendor, confirms that to the best of its knowledge and belief, after having made all reasonable enquiries, and based on the information provided by or on behalf of the Target Group and the Vendor, this Circular constitutes full and true disclosure of all material facts about the Target Group, and it is not aware of any facts the omission of which would make any statement about the Target Group in this Circular (other than Appendices A, B, D, H, I, J, and K) misleading. Where information has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of Nomura has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

23. CONSENTS

(a) KPMG LLP, the Reporting Accountant, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the reports set out in Appendix J and Appendix K to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

(b) KPMG, the auditors of the Target Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the reports set out in Appendix H and Appendix I to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

(c) PrimePartners Corporate Finance Pte. Ltd., the IFA, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name, the IFA's advice in respect of the Proposed Acquisition and the Proposed Whitewash Resolution and the IFA Letter set out in Appendix D to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

(d) DBS Bank Ltd., the financial adviser to the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name and references to its name in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

(e) Nomura International (Hong Kong) Limited, the financial adviser to the Vendor, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name and references to its name in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

(f) American Appraisal China Limited and Grant Sherman Appraisal Limited, the Independent Valuers, have given and have not withdrawn their written consents to the issue of this Circular with the inclusion of their names, the reports set out in Appendix A and Appendix B to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

(g) Each of the legal adviser to the Company on the laws of PRC and the legal adviser to the Target Company and the Vendor on the laws of PRC has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its names and references to its name in the forms and context in which it appears in this Circular. However, for the avoidance of doubt, each of the legal adviser to the Company on the laws of PRC, and the legal adviser to the Target Company and the

Vendor on the laws of PRC do not make, or purport to make, any statement in this Circular or any statement upon which a statement in this Circular is based and makes no representation express or implied regarding, and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for, any statements, information or opinions in or any omissions of this Circular.

24. INTERESTS OF FINANCIAL ADVISER AND IFA

Save for the following transactions, the Company does not have any material relationship with DBS:

(a) DBS' engagement as the Financial Adviser to the Company in relation to the Proposed Transactions (where applicable);

(b) the Cross-Currency Swap Contract entered into between the Company and DBS, as disclosed in Section 10 titled "Material Contracts" of the HanKore Letter;

(c) DBS' engagement as arranger and dealer of the Multicurrency Medium Term Note Programme (the "**MTN Programme**") established by the Company, as disclosed in Section 10 titled "Material Contracts" of the HanKore Letter and as dealer for the first drawdown of S$50 million 7.5% Notes due 2015 under the MTN Programme; and

(d) DBS acted as the solicitation agent for the consent solicitation exercise by the Company in relation to the S$50 million 7.5% Notes due 2015 comprised in Series 001 (ISIN: SG57B8995155) issued pursuant to the MTN Programme.

Save for its engagement as the IFA to the Company in relation to the Proposed Acquisition and the Proposed Whitewash Resolution, the Company does not have any material relationship with PrimePartners Corporate Finance Pte. Ltd.

25. EXPERTS

None of the experts named in this Circular:

(a) is employed on a contingent basis by the Company or any of its subsidiaries;

(b) has a material interest, whether direct or indirect, in the shares of the Company or any of its subsidiaries; or

(c) has a material economic interest, whether direct or indirect, in the Company or any of its subsidiaries, including any interest in the completion of the Proposed Acquisition.

26. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at 9 Battery Road, Straits Trading Building, #20-02, Singapore 049910 during normal business hours for a period of six (6) months from the date of this Circular:

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the Memorandum of Association and Bye-laws of the Target Company;

(c) the Acquisition Agreement;

(d) the material contracts as set out in Section 10 titled "Material Contracts" of the HanKore Letter;

(e) the material contracts as set out in Section 8 titled "Material Contracts of the Target Group" of the Target Letter;

(f) the IFA Letter;

(g) the Independent Valuation Report by American Appraisal China Limited;

(h) the Independent Valuation Report by Grant Sherman Appraisal Limited;

(i) the Audited Consolidated Financial Statements of the Target Group for the Financial Years Ended 31 December 2011, 2012 and 2013 set out in Appendix H to this Circular;

(j) the Audited Consolidated Financial Statements of the Target Group for the Six Months Ended 30 June 2014 set out in Appendix I to this Circular;

(k) the Audited Consolidated Financial Statements of the HanKore Group for the Financial Years Ended 31 December 2011, 2012 and 2013 and the Six Months Ended 30 June 2014 set out in Appendix J to this Circular;

(l) the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix K to this Circular;

(m) Annual Report of the Company for the financial year ended 30 June 2014; and

(n) the letters of consent referred to in Section 23 titled "Consents" of the HanKore Letter.

27. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully

For and on behalf of
the Board of Directors of
HanKore Environment Tech Group Limited
Chen Dawei, David
Executive Chairman
12 November 2014

CHINA EVERBRIGHT WATER INVESTMENTS LIMITED

(Company Registration No.: 538833)
(Incorporated in the British Virgin Islands on 25 March 2003)

Directors:	Registered Office:
Chen Xiaoping	Morgan & Morgan Building
Wang Tianyi	Pasea Estate
Wong Kam Chung, Raymond	Road Town, Tortola
Yang Zhiqiang	British Virgin Islands
Hu Yanguo	
	12 November 2014

To: The Shareholders of HanKore Environment Tech Group Limited

Dear Sir/Madam

The Proposed Acquisition by HanKore Environment Tech Group Limited of the entire issued and paid-up share capital of China Everbright Water Investments Limited for the consideration of RMB5,811,267,353 (being equivalent to S$1,212,230,370[(4)])

1. INTRODUCTION

This Target Letter has been prepared by the directors of the Target Company, on behalf of the Target Group, for inclusion in this Circular. Except where the context otherwise requires, capitalised terms defined in the Circular shall apply throughout this Target Letter.

2. INFORMATION ON THE TARGET GROUP

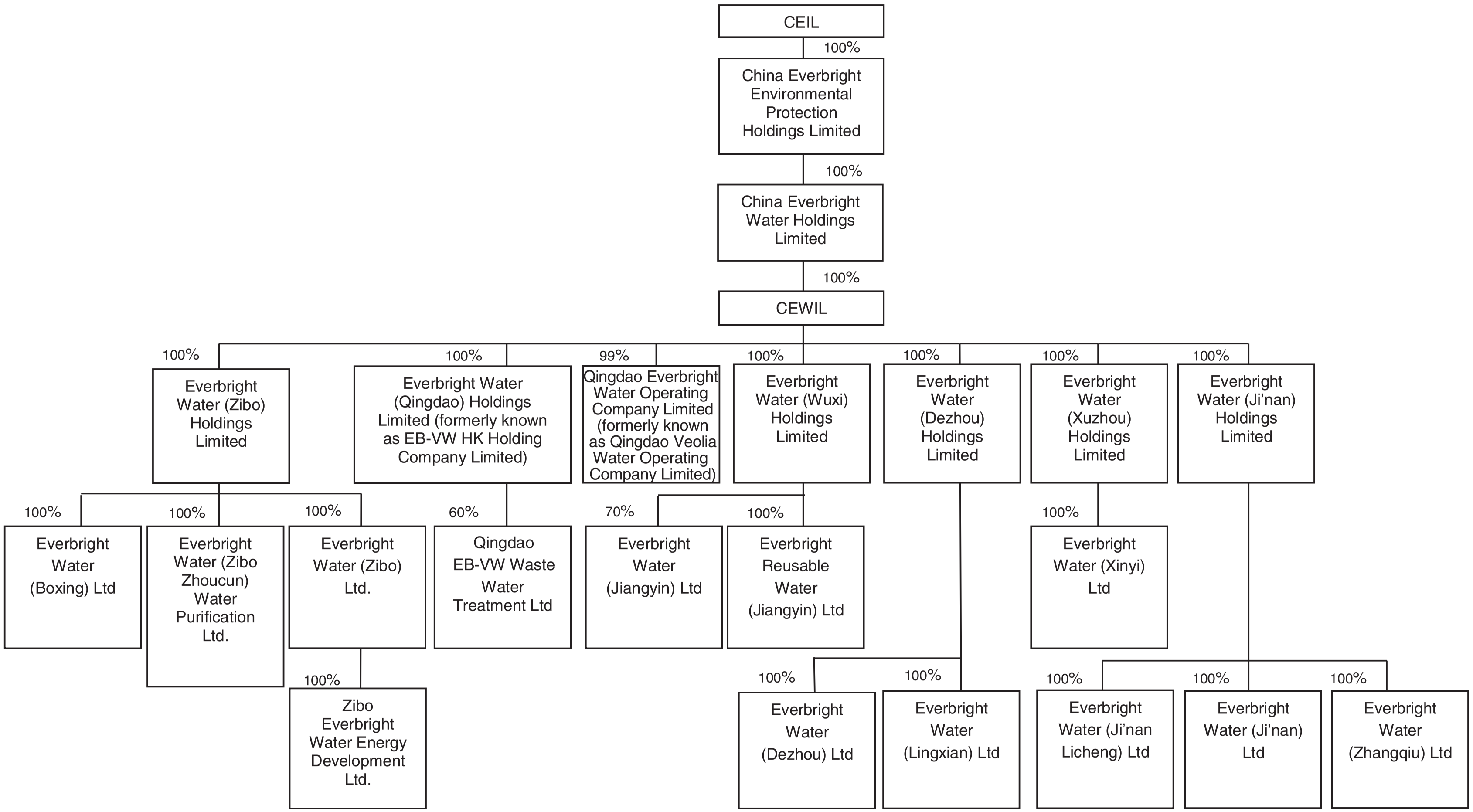
2.1 Background

The Target Company is a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Vendor. The Target Group is principally involved in the environmental water business, which includes wastewater treatment, reusable water projects and wastewater heat pump projects. These environmental water projects are focused in the regions of Taihu Lake and Bohai Bay area of the PRC. As at the Latest Practicable Date, the Target Group has a total of 21 wastewater treatment projects, four reusable water projects, two wastewater source heat pump projects and two BT water projects. Details of the Target Group's projects as at the Latest Practicable Date are more particularly set out in Section 3.2 titled "Business Overview" of this Target Letter.

[(4)] Based on an agreed foreign exchange rate of RMB1 : S$0.2086 as at 31 December 2013.

2.2 Group Structure of the Target Group and its Holding Companies

As at the Latest Practicable Date, the corporate structure of the Target Group and its holding companies is as follows:



The details of the Target Subsidiaries as at the Latest Practicable Date are as follows:

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Target Company (%)
Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited)	15 October 2003/ Hong Kong	Investment holding	100.0
Everbright Water (Zibo) Holdings Limited	11 June 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Dezhou) Holdings Limited	8 November 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Ji'nan) Holdings Limited	11 June 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Wuxi) Holdings Limited	3 October 2007/ Hong Kong	Investment holding	100.0
Everbright Water (Xuzhou) Holdings Limited	14 January 2010/ Hong Kong	Investment holding	100.0
Qingdao EB-VW Waste Water Treatment Ltd	13 August 2004/ PRC	Wastewater treatment	60.0(1)
Qingdao Everbright Water Company Limited (formerly known as Qingdao Veolia Water Operating Company Limited)	6 August 2004/ PRC	Wastewater treatment	99.0(2)
Everbright Water (Zibo) Ltd.	15 November 2005/PRC	Wastewater treatment	100.0
Everbright Water (Ji'nan) Ltd	10 October 2006/ PRC	Wastewater treatment	100.0
Everbright Water (Boxing) Ltd	21 February 2008/ PRC	Wastewater treatment	100.0

Name of subsidiary	Date and place of incorporation	Principal activities	Effective equity interest held by the Target Company (%)
Everbright Water (Zibo Zhoucun) Water Purification Ltd.	5 December 2007/ PRC	Wastewater treatment	100.0
Everbright Water (Jiangyin) Ltd	26 December 2007/PRC	Wastewater treatment	70.0(3)
Everbright Water (Ji'nan Licheng) Ltd	26 November 2008/PRC	Wastewater treatment and reusable water	100.0
Zibo Everbright Water Energy Development Ltd.	8 June 2009/PRC	Water heat pump project	100.0
Everbright Water (Lingxian) Ltd	10 December 2009/PRC	Wastewater treatment	100.0
Everbright Water (Xinyi) Ltd	4 March 2010/ PRC	Wastewater treatment and surface water BT projects	100.0
Everbright Reusable Water (Jiangyin) Ltd	18 May 2011/PRC	Reusable water	100.0
Everbright Water (Dezhou) Ltd	24 February 2012/ PRC	Wastewater treatment	100.0
Everbright Water (Zhangqiu) Ltd	4 June 2013/PRC	Wastewater treatment	100.0

Notes:

(1) Qingdao Municipal Drainage Company holds the remaining 40.0% of the issued share capital of Qingdao EB-VW Waste Water Treatment Ltd..

(2) Qingdao Municipal Drainage Company holds the remaining 1.0% of the issued share capital of Qingdao Everbright Water Company Limited.

(3) Jiangsu Jiangnan Water Co., Ltd. holds the remaining 30.0% of the issued share capital of Everbright Water (Jiangyin) Ltd.

Save as disclosed in this Section 2.2 titled "Group Structure of the Target Group and its Holding Companies" of the Target Letter, there are no other subsidiaries or associated companies of CEWIL. None of the Target Subsidiaries is listed on any stock exchange in any jurisdiction.

2.3 Share Capital of CEWIL

As at the Latest Practicable Date, there is only one class of shares in the capital of CEWIL, being ordinary shares.

As at the Latest Practicable Date:

(a) CEWIL is not directly or indirectly owned or controlled, whether severally or jointly, by any person or government;

(b) there are no other arrangements that will result in a change in control of CEWIL; and

(c) there has not been any public take-over offer, by a third party in respect of any of the shares of any company in the Target Group or by any company in the Target Group in respect of the shares of another corporation or the units of a business trust, which has occurred between the beginning of the most recent completed FY and the Latest Practicable Date.

As of the Latest Practicable Date, CEWIL has an authorised share capital of US$50,000 divided into 50,000 ordinary shares of par value US$1.00 each and an issued and paid-up share capital of US$2.00 comprising 2 ordinary shares of par value US$1.00 each.

A history of the changes in the issued share capital of CEWIL since its incorporation up to the Latest Practicable Date is set out below:

CEWIL

Date	No. of ordinary shares issued	Offer Price / Consideration	Purpose of Issue / Change	Resultant issued share capital
8 April 2003	One	US$1.00	Incorporation	US$1.00
18 June 2014	One	HK$1,210,050,000	Capitalisation of shareholder's loan	US$2.00

2.4 Changes in Share Capital of Target Subsidiaries

Save as disclosed in this Section 2.4 titled "Changes in Share Capital of Target Subsidiaries" of the Target Letter, there were no changes in the issued and paid-up capital of the Target Subsidiaries within the three years preceding the Latest Practicable Date.

Everbright Water (Jiangyin) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
15 May 2012	Reduction of registered capital	211,000,000	180,000,000

Everbright Water (Ji'nan Licheng) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
22 May 2012	Contribution to registered capital	15,679,706	86,389,706
15 March 2013	Contribution to registered capital	31,532,280	117,741,986
24 June 2013	Contribution to registered capital	30,788,014	148,530,000

Everbright Water (Lingxian) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
25 December 2013	Contribution to registered capital	10,060,820	55,543,439

Everbright Water (Xinyi) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
7 December 2011	Contribution to registered capital	30,208,760	94,492,547
7 February 2012	Contribution to registered capital	30,000,000	124,492,547
7 May 2012	Contribution to registered capital	20,423,151	144,915,698

Everbright Reusable Water (Jiangyin) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
25 April 2012	Contribution to registered capital	18,876,900	31,824,100

Everbright Water (Dezhou) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
18 April 2012	Initial contribution to registered capital	23,983,188	23,983,188
17 October 2012	Contribution to registered capital	39,707,640	63,690,828
26 November 2012	Contribution to registered capital	13,645,828	77,336,656

Everbright Water (Zhangqiu) Ltd

Date	Purpose	Amount of Capital Contributed / (Reduced) (RMB)	Resultant Paid Up Share / Resultant Registered Capital
30 July 2013	Initial contribution to registered capital	4,618,656	4,618,656
12 September 2013	Contribution to registered capital	15,881,600	20,500,256
23 January 2014	Contribution to registered capital	9,849,444	30,349,700

2.5 Shareholding Structure of CEWIL

As at the Latest Practicable Date, the shareholdings of the directors, chief executive officer and Substantial Shareholder of CEWIL in the capital of CEWIL are set out below:

	Direct Interest		Deemed Interest	
	Number of Shares	% of total issued Shares	Number of Shares	% of total issued Shares
Directors				
Chen Xiaoping	—	—	—	—
Wang Tianyi	—	—	—	—
Wong Kam Chung, Raymond	—	—	—	—
Yang Zhiqiang	—	—	—	—
Hu Yanguo	—	—	—	—
Substantial Shareholder				
China Everbright Water Holdings Limited	2	100	—	—
China Everbright Environmental Protection Holdings Limited	—	—	2	100
CEIL	—	—	2	100

Saved as disclosed in this Letter, as at the Latest Practicable Date:

(i) CEWIL is not aware of any arrangement, the operation of which may, at a subsequent date, result in a change in control of CEWIL; and

(ii) the CEWIL shares held by the directors and/or Substantial Shareholder of CEWIL do not carry different voting rights from other CEWIL shares.

2.6 Significant Changes in Ownership

As set out in Section 1.1 titled "Background" and Section 2.4(p) titled "Conditions Precedent" of the HanKore Letter, pursuant to the Acquisition Agreement, the Company has agreed to acquire, and the Vendor has agreed to sell, the Sale Shares, subject to the terms and conditions of the Acquisition Agreement, one of which condition is that China Everbright Environmental Protection Holdings Limited shall transfer the Sale Shares to the Vendor and the register of members of CEWIL shall be updated on or before 30 June 2014 (or such date as may be mutually agreed by CEWIL and the Vendor in writing) to reflect the transfer of the Sale Shares to the Vendor. On 26 June 2014, China Everbright Environmental Protection Holdings Limited transferred the Sale Shares to the Vendor and the register of members of the Target Company was updated accordingly.

Save as disclosed in this Section 2.6 titled "Significant Changes in Ownership" and Section 2.3 titled "Share Capital of CEWIL" of the Target Letter, there have been no significant changes in the ownership of CEWIL shares during the last three years prior to the Latest Practicable Date.

3. HISTORY AND BUSINESS

3.1 History and Development

CEWIL was incorporated on 25 March 2003 in the British Virgin Islands. The Target Group has since established several project companies and joint ventures to expand its environmental water business.

In 2003, Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Limited), established a Sino-foreign co-operative joint venture company, Qingdao EB-VW Waste Water Treatment Ltd., with Qingdao Municipal Drainage Company, a state-owned company in the PRC, for the principal purposes of operating and maintaining the waste treatment plants known as "Qingdao Haibohe" and "Qingdao Maidao" in the municipality of Qingdao, Shangdong Province, the PRC. In pursuance of this joint venture, Qingdao EB-VW Waste Water Treatment Ltd. entered into a wastewater treatment agreement with Qingdao Municipal Drainage Company for the provision of wastewater treatment services and other related services to Qingdao Municipal Drainage Company on an exclusive basis for a term of 25 years.

In 2005, CEWIL entered into an asset transfer agreement with Zibo Finance Bureau and Zibo Environment Waste Water Treatment Company, pursuant to which CEWIL, through a project company, Everbright Water (Zibo) Ltd. acquired all assets relating to the two wastewater treatment plants respectively situated at No. 9, Mingbo Road, New & Hi-Tech Industrial Development Zone (comprising one wastewater treatment factory) and Mazhuang Village, Nanding Zhen, Zhangdian District, Zibo City, Shandong Province (comprising two (northern and southern) wastewater treatment projects) ("**Zibo Waste Water Treatment Plants**"). Everbright Water (Zibo) Ltd. was incorporated for the purposes of investment in the business of wastewater treatment service in Zibo City, Shandong Province, the PRC through the acquisition and operation of the Zibo Waste Water Treatment Plants and to provide wastewater treatment service in certain specified areas in Zibo City. CEIL also entered into a concession right agreement, on behalf of Everbright Water (Zibo) Ltd., with Zibo City Water Resources and Fisheries Bureau on 26 September 2005 in respect of the granting of an exclusive right to Everbright Water (Zibo) Ltd. to operate the Zibo Waste Water Treatment Plants for a term of 25 years.

Riding on the success of the above projects, the Target Group sought to expand its environmental protection business in Shandong Province, the PRC. In 2006, in order to improve the operational efficiency of public utilities in Jinan City, the Jinan People's Government authorised Jinan State-owned Assets Commission to transfer assets relating to the wastewater treatment plant no.s 1 and 2 situated in Jinan City (the "**Jinan Waste Water Treatment Plants**"), which are state-owned assets held by the Jinan People's Government, to Everbright Water (Ji'nan) Ltd, a project company established by CEWIL. Pursuant to a concession right agreement, Everbright Water (Ji'nan) Ltd was granted the exclusive right to operate the Jinan Waste Water Treatment Plants to provide wastewater treatment service in certain specified areas in Jinan City for a term of 30 years, with further right to invest, construct, operate and provide reusable water generation service depending on the water resources development plans and market demands of Jinan City at the relevant time, and to collect service charges in connection therewith. In the event the wastewater treatment capacity of the Jinan Waste Water Treatment Plants shall become insufficient to process all wastewater generated in Jinan City, CEWIL and Everbright Water (Ji'nan) Ltd shall have the first right to invest, construct and operate such new facilities. Further, pursuant to a wastewater treatment service agreement, Everbright Water (Ji'nan) Ltd shall receive monthly service charges from Jinan Utilities Authority based on the volume of wastewater processed during the term of the agreement.

In 2007, Everbright Water (Wuxi) Holdings Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CEWIL, entered into a joint venture with Jiangyin City Xin Guo Lian Investment and Development Co. Ltd, a company established in Jiangyin City, Jiangsu Province, the PRC and owned by Jiangyin Finance Bureau and Jiangyin State-owned Assets Commission, to establish a project company, Everbright Water (Jiangyin) Ltd.. In order to improve the operational efficiency of public utilities in Jiangyin City, the Jiangyin People's Government had decided to transfer the assets relating to the Jiangyin Wastewater Treatment Project, the Shi Zhuang Wastewater Treatment Project, the Cheng Xi Waste Water Treatment Project and the Bin Jiang Wastewater Treatment Project (the "**Jiangyin Waste Water Treatment Plants**") to the project company. In connection with this joint venture, the joint venture parties entered into a concession right agreement with Jiangyin Construction Bureau in respect of the granting of an exclusive right to Everbright Water (Jiangyin) Ltd. to operate the Jiangyin Waste Water Treatment Plants for a term of 30 years. Further, in 2008, Everbright Water (Jiangyin) Ltd. entered into a transfer agreement with the Jiangyin State-owned Assets Commission in relation to the transfer of all sewage piping network built in the urban area of Jiangyin City.

As at the end of FY2013, the Target Group had a total of 21 wastewater treatment projects, four reusable water projects, two wastewater source heat pump projects and two BT water projects, commanding a total investment of RMB3.214 billion. The environmental water projects are designed with an annual wastewater treatment capacity of approximately 667,950,000 m^3 and provide annual reusable water of 22,334,000 m^3. Two water BT projects have also completed construction, commanding a total investment of RMB447 million. The Target Group continued to consolidate its environmental water business. In FY2013, the Target Group advanced the development of its environmental water projects and obtained Shandong Zhangqiu Waste Water Treatment Project and the upgrading project of Ling County Plant No. 1 Project. In addition to achieving stable operations and complying with discharge standards, the Target Group reduced operating costs by saving electricity consumption, monitoring water quality changes and making adjustments accordingly, and centralising procurement. In FY2013, Jiangsu Jiangyin Reusable Water Project, Shandong Jinan Licheng Waste Water Treatment Project Phase II ("**Jinan Licheng Project Phase II**"), Shandong Dezhou Nanyunhe Waste Water Project Phase I ("**Dezhou Nanyunhe Project Phase I**"), all commenced commercial operation. After the Jinan Licheng Project Phase II commenced commercial operation, the total daily wastewater treatment capacity of the Target Group's four existing wastewater treatment plants in Jinan City reached 730,000 m^3. Furthermore, the standard wastewater treatment fee of Zhoucun Waste Water Treatment Project and Jinan Licheng Project was increased in FY2013. Environmental water projects treated wastewater of 526,485,000 m^3, an increase of 3% as compared with FY 2012. The environmental water projects brought an EBITDA of HK$497,942, an increase of 6% as compared with FY 2012. The increase in profit was mainly due to the completion of construction and commencement of commercial operation of Jinan Licheng Project Phase II, which contributed to the construction service revenue, as well as construction cost savings recognised on completed projects.

On 24 July 2014, CEWIL entered into agreements with Veolia Water S.A., the non-controlling shareholder of EB-VW HK Holding Company Limited (a non-wholly owned subsidiary of CEWIL) and the controlling shareholder of Qingdao Veolia Water Operating Company Limited, an associate of CEWIL, pursuant to which Veolia Water S.A. agreed to sell and CEWIL agreed to purchase the 40% equity interest in EB-VW HK Holding Company Limited and 78% equity interest in Qingdao Veolia Water Operating Company Limited at considerations of RMB70,891,700 and RMB1,800,000 respectively. Upon completion of the transactions, EB-VW HK Holding Company Limited became a wholly-owned subsidiary of CEWIL whereas Qingdao Veolia Water Operating Company Limited became a non-wholly owned subsidiary of CEWIL. EB-VW HK Holding Company Limited was also renamed to Everbright Water (Qingdao) Holdings Limited and Qingdao Veolia Water Operating Company Limited was also renamed to Qingdao Everbright Water Company Limited following the transactions.

As a result of the Target Group's cooperation with world-renowned environmental protection companies, the Target Group has improved its technological advantages and strengthened its market competitiveness. In relation to the environmental water business, the CEIL Group entered into a cooperation framework agreement with Suez Environment Group to collaborate on waste treatment, wastewater treatment, sludge treatment, hazardous waste treatment and environmental protection technology.

Details of the material expenditure on and divestment of capital investment by the Target Group from the beginning of the period comprising the three most recent completed financial years and the Latest Practicable Date are set out in the table below:

Financing amount in 10,000RMB unless specified otherwise

#	Project		Total Investment 2011	2012	2013	Financing Amount	Financing Method	Financing Location
1	Everbright Water (Dezhou) Ltd	Dezhou Nanyunhe Wastewater Treatment Project	—	15,027	—	HK$50 million	Shareholder Loan	Jinan
2	Everbright Water (Lingxian) Ltd	Ling County Wastewater Treatment Project Phase 1 Upgrade	—	—	1,431	N / A	N / A	N / A
3	Everbright Water (Jiangyin) Ltd	Cheng Xi Wastewater Treatment Project expansion	2,542	—	—	N / A	N / A	N / A
		Sludge Desiccation	—	1,716	—	N / A	N / A	N / A
		Fixed asset investment	—	—	247	N / A	N / A	N / A
4	Everbright Reusable Water (Jiangyin) Ltd	Jiangyin Reusable Water Project	7,307	—	—		Shareholder Loan	Wuxi
5	Everbright Water (Ji'nan Licheng) Ltd	Ji'nan Licheng Wastewater Treatment Project (Plant 3) Phase II	—	—	19,500	12,000	Bank of China bank loan	Jinan
6	Everbright Water (Xinyi) Ltd (Xinyi BT Surface Water Project)	Total investment in 2011	8,373	—	—	2,027	Shareholder Loan	Shenzhen
		Total investment in 2012 (Incl. increase in registered capital)	—	25,232	—	4,600	Industrial and Commercial Bank of China bank loan	Shenzhen
			—	—	—	7,216	Shareholder Loan	Shenzhen
		Total investment in 2013 (Incl. increase in registered capital)	—	—	38,511	13,279	Shareholder Loan	Shenzhen
7	Everbright Water (Zibo) Ltd	Zibo Reusable Water Project	4,400	—	—	3,500	Industrial and Commercial Bank of China bank loan	Zibo
8	Zibo Everbright Water Energy Development Ltd	Zibo Heat Pump Project Phase I	5,789	3,212	—	4,000	Chinese Mercantile Bank bank Loan	Zibo
		Zibo Heat Pump Project Phase II	—	9,311	—	5,744	Chinese Mercantile Bank bank Loan	Zibo

3.2 Business Overview

The Target Group is principally involved in the environmental water business, which includes wastewater treatment projects, reusable water projects and wastewater heat pump projects. These environmental water projects are focused in the regions of Taihu Lake and Bohai Bay area of the PRC. As at the Latest Practicable Date, the Target Group has a total of 21 wastewater treatment projects, four reusable water projects, two wastewater source heat pump projects and two BT water projects.

The Target Group has invested in Jinan Licheng Reusable Water Project, Zibo Reusable Water Project, Jiangyin Reusable Water Project and the Zibo Heat Pump Projects, with an ambition to expand its business into reusable water and wastewater heat pump sectors in the next three years in China.

The Jinan Licheng Reusable Water Project constructed and operated by the Target Group is the key reusable water project in Jinan, with a total investment of RMB31.06 million and a design supplying capacity of 42,000 m^3 / day, mainly supplying Huaneng Huangtai Power Generation Ltd., for producing circulating cooling water. The construction of this project started at the end of August 2010, and was completed by the end of September 2011.

CEWIL signed a water supply contract with Huadian Zibo Power Company Limited in February 2010 to supply water for boiler and process. Zibo Reusable Water Project was constructed for such purpose and was completed by the end of September 2011, with a total investment of approximately RMB44 million for Phase I. The project uses submerged ultrafiltration plus reverse osmosis process, which is an advanced technology with small footprint, high water quality and a high degree of automation.

Jiangyin Reusable Water Project is the only reusable water project in Jiangyin, with area of 12,546.73 m^2. The design capacity is 20,000 m^3 per day in two phases. The capacity of Phase I is 10,000 m^3 per day, and outside pipeline is 20,000 m^3 per day with a total investment of approximately RMB7,307 million. The project officially started construction on December 14, 2011, and began commercial operation in January 2013. This project uses submerged ultrafiltration plus reverse osmosis process.

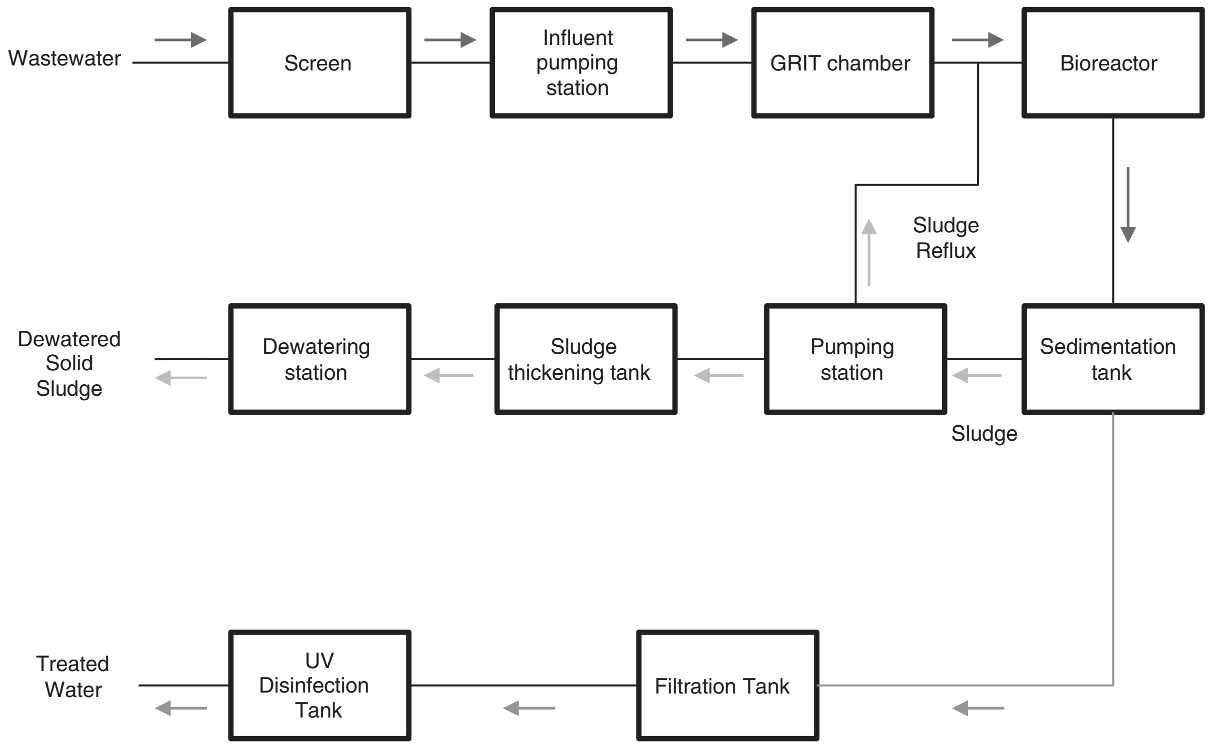
The Zibo Heat Pump Project uses the Class A standard water from Everbright Water (Zibo) Ltd as the source to produce heating and cooling water with advanced water source heat pump technology for surrounding residential and office facilities. The total investment of two phases is approximately RMB150,997,000. Phase I started construction in July 2010, and was officially put into operation in December 2011, which provides heating and cooling water to the Science Park, with heating and cooling area of 125,000 m^2. Phase II started construction in April 2012, and was officially put into operation in November 2013, which provides heating and cooling water to Zibo Ceramics Innovation Center, with heating and cooling area of 187,000 m^2.

3.3 Business Segments

The Target Group's core businesses comprise "Build-Operate-Transfer" ("**BOT**"), "Transfer-Operate-Transfer" ("**TOT**"), "Build-Own-Operate" ("**BOO**") and "Build-Transfer" ("**BT**") wastewater treatment, water recycling, water supply and sludge treatment projects.

3.4 Waste and Wastewater Treatment Process/ Reusable water process

The key stages of the Target Group's waste and wastewater treatment process and reusable water process are as follows:



3.5 Business Process

The Target Group's core businesses comprise BOT, TOT, BOO and BT wastewater treatment, water recycling, water supply and sludge treatment projects. After CEWIL successfully bids for a wastewater treatment investment and operation project in accordance with its marketing process pursuant to Section 3.16 below, CEWIL will establish the project company in accordance with the relevant municipal laws and regulations and enter into the relevant agreements with the relevant municipal authorities.

In the case of a BOT project, the project company is granted the exclusive right under the concession agreement to construct and operate the relevant wastewater treatment plants on the project land to provide wastewater treatment services for the concession period. At the end of the concession period, the BOT project is transferred to the relevant municipal authority.

In the case of a TOT project, the relevant municipal authority transfers existing project assets to the project company, which is then granted the exclusive right to upgrade and operate the relevant wastewater treatment plants on the project land to provide wastewater treatment services for the concession period. Similar to the BOT project, at the end of the concession period, the TOT project is re-transferred to the relevant municipal authority.

In the case of a BOO project, the project company will invest in and construct the wastewater treatment plants on the project land. After construction is completed, the project company will enter into a service agreement with the relevant municipal authority or enterprise client to provide wastewater treatment services. The project company owns the BOO project without handing over the project to the relevant municipal authority or enterprise client.

In the case of a BT project, the project company enters into an agreement with the relevant municipal authority, pursuant to which the project company will construct the relevant wastewater treatment plants on the project land. After construction is completed, the project company will transfer the BT project to the relevant municipal authority.

A summary of the principal features of the Target Group's BOT, TOT, BOO and BT projects is set out in the table below:

Principal Features	**BOT**	**TOT**	**BOO**	**BT**
Existing wastewater treatment projects transferred by municipal authority to project company	—	Yes	—	—
Project company constructs the wastewater treatment projects	Yes	—	Yes	Yes
Project company operates the wastewater treatment projects	Yes	Yes	Yes	—
Project company owns the wastewater treatment projects	—	—	Yes	—
Project company transfers the wastewater treatment projects to municipal authority	Yes (at the end of the concession period)	Yes (at the end of the concession period)	—	Yes (upon completion of construction)

Further details on the BOT, TOT, BOO and BT projects are set out below.

3.6 Target's Operations

(i) BOT Projects

Prior to commencement of a BOT project, the Target Group will enter into a concession agreement and service agreement (collectively, the "**BOT Agreements**") with the relevant municipal authority. Pursuant to the BOT Agreements, the Target Group is required to incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality.

The project company will undertake to effect the investment in, and construction, operation and maintenance of, the relevant BOT project. After the project company is incorporated, such project company will raise such funds as are necessary for completion of the BOT project (including equity and debt financing), establish the relevant project departments, and complete the project construction within the period as prescribed in the BOT Agreements and in accordance with the relevant laws and regulations of the relevant municipality. After the project facilities are completed, the project company will undertake such necessary adjustments such that the project facilities fulfil the prescribed standards pursuant to the BOT Agreements. Once the water discharge becomes stable and fulfils the prescribed standards, the project company will formally enter the business operation stage.

During the business operation stage, the project company will supply wastewater treatment services according to the prescribed quality requirements for the absorbed and discharged water as prescribed in the BOT Agreements, maintain the wastewater treatment equipment and make renewal and improvement when necessary, and accept scheduled and ad-hoc examinations of the project facilities by the relevant municipal authority.

The relevant municipal authority will calculate and make payment of the wastewater treatment fee to the project company for the preceding month based on the actual wastewater treatment quantity of that month or the basic wastewater treatment quantity as prescribed in the BOT Agreements and the wastewater treatment unit price.

After the concession period expires, the project company will transfer the project facilities and such relevant documents and materials, including but not limited to the operation records and design blueprints, to the relevant municipal authority without any compensation.

(ii) TOT Projects

Prior to commencement of a TOT project, the Target Group will enter into a concession agreement, service agreement and asset transfer agreement (collectively, the "**TOT Agreements**") with the relevant municipal authority. Pursuant to the TOT Agreements, the Target Group is required to incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality. The project company will undertake to effect the investment in, and operation and maintenance of, the relevant TOT project. After the project company is incorporated, such project company will raise funds as are necessary for completion of the TOT project (including equity and debt financing), and purchase existing project assets from the municipal authority in accordance with the TOT Agreements. The project company will then proceed to (a) take over the project assets which are transferred from the municipal authority to the project company in accordance with the project asset transfer list in the TOT Agreements; and (b) carry out such performance tests as are necessary on the existing project assets.

Following completion of the transfer of the project assets, the project company will put in place a scheme to improve and enhance the technological capabilities of the existing project assets (if necessary), and, with the approval of the municipal authority, implement the scheme. The project company will also undertake to provide the technological capabilities to allow the existing project assets to be controlled remotely through a centralised system so as to improve the efficiency and stability of facility operations.

The TOT business is largely similar to the BOT business at the business operation stage.

(iii) BOO Projects

Prior to commencement of a BOO project, the Target Group will conduct comprehensive market research on regional demand for wastewater treatment services. The Target Group will then incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality.

The project company will undertake the investment in, and construction, operation and maintenance of, the relevant BOO project. After the project company is incorporated, such project company will raise such funds as are necessary for completion of the BOO project (including equity and debt financing), establish the relevant project departments, and complete the project construction in accordance with the relevant laws and regulations of the relevant municipality. After the project facilities are completed, the Target Group will enter into a service agreement (the "**BOO Agreements**") with the relevant municipal authority or enterprise client.

Pursuant to the BOO Agreements, the project company will supply reusable water or heating services according to the prescribed requirements in the BOO Agreements, maintain the equipment and make renewal and improvement when necessary, and accept scheduled and ad-hoc examinations of the project facilities by the relevant municipal authority or enterprise client.

The relevant municipal authority and enterprise client will calculate and make payment of the service fee to the project company for the preceding month based on the actual service quantity of that month or the basic service quantity as prescribed in the BOO Agreements and the service unit price.

The project company owns the BOO project without handing over the project to the relevant municipal authority or enterprise client.

(iv) BT Projects

Prior to commencement of a BT project, the Target Group will enter into an agreement (the "**BT Agreements**") with the relevant municipal authority. Pursuant to the BT Agreements, the Target Group is required to incorporate a project company in accordance with the relevant laws and regulations of the relevant municipality.

The project company will undertake to effect the investment in, and construction of the relevant BT project. After the project company is incorporated, such project company will raise such funds as are necessary for completion of the BT project (including equity and debt financing), establish the relevant project departments, and complete the project construction within the period as prescribed in the BT Agreements and in accordance with the relevant laws and regulations of the relevant municipality. After the project facilities are completed, the project company will transfer the project facilities and relevant documents and materials to the relevant municipal authority. The relevant municipal authority will make payment to the project company as prescribed in the BT Agreements.

3.7 Target Group's Projects

The following table sets out the type of investment and date of commencement of commercial operations for the Target Group's projects, which contribute to its turnover:

Name of Target Group Company	Project	Location	Land Size (Ha)	Products Produced	Type of Investment / Duration of Concession Agreements[1]	Date of Commencement of Commercial Operations
Everbright Water (Zhangqiu) Ltd	Zhangqiu Wastewater Treatment Project	Zhangqiu, Shandong, PRC	3.6	Treated water	BOT for 30 years / August 2013 — August 2043	August 2014
Everbright Water (Ji'nan Licheng) Ltd	Jinan Licheng Wastewater Treatment Project (Plant 3) Phase 1	Jinan, Shandong, PRC	9.0	Treated water	BOT for 28 years / August 2008 — November 2036	October 2009
	Jinan Licheng Wastewater Project (Plant 3) Phase 2	Jinan, Shandong, PRC	7.6	Treated water	BOT for 23 years / 1 November 2013 — 17 November 2036	November 2013
	Jinan Licheng Reusable Water Project	Jinan, Shandong, PRC	—	Treated water	BOO for 24 years	September 2011
Everbright Water (Ji'nan) Ltd	Jinan Wastewater Treatment Project (Plant 1 and Plant 2)	Jinan, Shandong, PRC	33.9	Treated water	TOT for 30 years / 10 October 2006 — 9 October 2036	November 2006
	Jinan Xike Wastewater Treatment Project (Plant 4)	Jinan, Shandong, PRC	4.0	Treated water	BOT for 26 years / March 2009 — 31 December 2035	June 2010
Everbright Water (Dezhou) Ltd	Dezhou Nanyunhe Wastewater Treatment Project Phase 1	Dezhou, Shandong, PRC	5.0	Treated water	BOT for 25 years / 1 September 2013 — 1 September 2038	September 2013
	Dezhou Nanyunhe Wastewater Treatment Project Phase 2 *(In preparatory stage)*	Dezhou, Shandong, PRC	4.7	Treated water	BOT for 25 years / 1 September 2013 — 1 September 2038	NA
Everbright Water (Jiangyin) Ltd	Shi Zhuang Wastewater Treatment Project	Jiangyin, Jiangsu, PRC	10.7	Treated water	TOT for 30 years / 26 December 2007 — 25 December 2037	January 2008

Name of Target Group Company	Project	Location	Land Size (Ha)	Products Produced	Type of Investment / Duration of Concession Agreements[1]	Date of Commencement of Commercial Operations
	Cheng Xi Wastewater Treatment Project	Jiangyin, Jiangsu, PRC	3.1	Treated water	TOT for 30 years / 26 December 2007 — 25 December 2037	January 2008
	Bin Jiang Wastewater Treatment Project	Jiangyin, Jiangsu, PRC	5.2	Treated water	TOT for 30 years / 26 December 2007 — 25 December 2037	January 2008
Everbright Water (Zibo Zhoucun) Water Purification Ltd	Zibo Zhoucun Wastewater Treatment Project	Zibo, Shandong, PRC	1.8	Treated water	BOT for 25 years / August 2008 — December 2033	November 2009
Zibo Everbright Water Energy Development Ltd	Zibo Heat Pump Project Phase I	Zibo, Shandong, PRC	0.2	Renewed heat	BOO for 30 years	December 2011
	Zibo Heat Pump Project Phase II	Zibo, Shandong, PRC	—	Renewed heat	BOO for 30 years	November 2013
Everbright Water (Zibo) Ltd	Zibo Wastewater Treatment Project (Plant 1 and Plant 2)	Zibo, Shandong, PRC	19.2	Treated water	TOT for 25 years / December 2005 — December 2030	November 2005
	Zibo High-tech Zone Wastewater Treatment Project (Plant 3)	Zibo, Shandong, PRC	10.0	Treated water	BOT for 25 years / April 2007 — April 2032	April 2007
	Zibo Reusable Water Project Phase 1	Zibo, Shandong, PRC	0.2	Treated water	BOO for 20 years	September 2011
	Zibo Reusable Water Project Phase 2 *(In preparatory stage)*	Zibo, Shandong, PRC	—	Treated water	BOO for 20 years	2015 (expected)

Name of Target Group Company	Project	Location	Land Size (Ha)	Products Produced	Type of Investment / Duration of Concession Agreements[(1)]	Date of Commencement of Commercial Operations
Everbright Water (Boxing) Ltd	Binzhou Boxing Wastewater Treatment Project	Bo Xing, Shandong, PRC	3.4	Treated water	BOT/TOT for 25 Years / November 2007 — November 2032	Phase 1 — April 2008 Upgrading work — December 2008 Phase 2 — June 2009
Qingdao EB-VW Waste Water Treatment Ltd.	Qingdao Wastewater Treatment Project (Haibohe & Maidao Plants)	Qingdao, Shandong, PRC	14.7	Treated water	BOT/TOT for 25 Years / 13 August 2004 — 13 August 2029	January 2005
Everbright Water (Xinyi) Ltd	Xinyi BT Wastewater Treatment Project Phase 1	Xin Yi, Jiangsu, PRC	7.4	Treated water	BT for 4 years / Concession agreement not applicable[(2)]	October 2010
	Xinyi BT Surface Water Project	Xin Yi, Jiangsu, PRC	12.8	Treated water	BT for 8 years / Concession agreement not applicable[(2)]	June 2013
Everbright Water (Lingxian) Ltd	Ling County Wastewater Treatment Project (Plant 1)	Ling County, Shandong, PRC	2.7	Treated water	TOT for 30 years / 1 June 2010 — 31 May 2040	June 2010
	Ling County Wastewater Treatment Project (Plant 2)	Ling County, Shandong, PRC	3.0	Treated water	BOT for 30 years / 23 September 2009 — 23 September 2039	June 2010
	Ling County Wastewater Treatment Project Plant 1 (upgrade)	Ling County, Shandong, PRC	5.1	Treated water	Supplemental Agreement to TOT	June 2014
Everbright Reusable Water (Jiangyin) Ltd	Jiangyin Reusable Water Project	Jiangyin, Jiangsu, PRC	1.3	Treated water	BOO for 25 years	January 2013

The following table sets out the productive capacity and extent of utilisation of each of the Target Group's projects for each of FY2011, FY2012 and FY2013:

		FY2011			FY2012			FY2013		
Name of Target Group Company	Project	Production capacity (tonnes/day)	Utilisation (tonnes/day)	Percentage of production capacity (%)	Production capacity (tonnes/day)	Utilisation (tonnes/day)	Percentage of production capacity (%)	Production capacity (tonnes/day)	Utilisation (tonnes/day)	Percentage of production capacity (%)
Everbright Water (Zhangqiu) Ltd	Zhangqiu Wastewater Treatment Project	—	—	—	—	—	—	—[3]	—[3]	—[3]
Everbright Water (Ji'nan Licheng) Ltd	Jinan Licheng Wastewater Treatment Project (Plant 3) Phase 1	100,000	109,000	109.0	100,000	113,000	113.0	100,000	126,000	63.0
	Jinan Licheng Wastewater Project (Plant 3) Phase 2	—	—	—	—	—	—	100,000		
	Jinan Licheng Reusable Water Project	22,000	12,700	57.7	22,000	21,000	96.8	22,000	16,000	74.5
Everbright Water (Ji'nan) Ltd	Jinan Wastewater Treatment Project (Plant 1)	300,000	300,000	100.0	300,000	301,000	100.3	300,000	305,000	101.7
	Jinan Wastewater Treatment Project (Plant 2)	200,000	180,000	90.0	200,000	199,000	99.5	200,000	197,000	98.5
	Jinan Xike Wastewater Treatment Project (Plant 4)	30,000	31,000	103.3	30,000	45,000	150.0	30,000	46,000	153.3
Everbright Water (Dezhou) Ltd	Dezhou Nanyunhe Wastewater Treatment Project Phase 1	—	—	—	—	—	—	75,000	55,000	73.9
	Dezhou Nanyunhe Wastewater Treatment Project Phase 2 *(In preparatory stage)*					In preparatory stage				
Everbright Water (Jiangyin) Ltd	Shi Zhuang Wastewater Treatment Project	10,000	4,000	41.0	10,000	4,000	44.0	10,000	8,000	79.0

Name of Target Group Company	Project	FY2011 Production capacity (tonnes/day)	FY2011 Utilisation (tonnes/day)	FY2011 Percentage of production capacity (%)	FY2012 Production capacity (tonnes/day)	FY2012 Utilisation (tonnes/day)	FY2012 Percentage of production capacity (%)	FY2013 Production capacity (tonnes/day)	FY2013 Utilisation (tonnes/day)	FY2013 Percentage of production capacity (%)
	Cheng Xi Wastewater Treatment Project	50,000	36,000	71.2	50,000	42,000	84.8	50,000	48,000	96.4
	Bin Jiang Wastewater Treatment Project	100,000	69,000	68.5	100,000	80,000	80.2	100,000	87,000	86.9
Everbright Water (Zibo Zhoucun) Water Purification Ltd	Zibo Zhoucun Wastewater Treatment Project	40,000	42,000	106.0	40,000	45,000	113.3	40,000	46,000	114.3
Everbright Water (Zibo) Ltd	Zibo Wastewater Treatment Project (Plant 1)	200,000	157,000	78.5	200,000	150,000	75.2	200,000	151,000	75.5
	Zibo Wastewater Treatment Project (Plant 2)	50,000	45,000	89.8	50,000	44,000	88.8	50,000	51,000	102.4
	Zibo High-tech Zone Wastewater Treatment Project (Plant 3)	100,000	112,000	111.8	100,000	128,000	127.5	100,000	128,000	127.8
	Zibo Reusable Water Project Phase 1	5,000	3,000	57.2	5,000	3,000	56.9	5,000	3,000	64.3
	Zibo Reusable Water Project Phase 2 *(In preparatory stage)*					In preparatory stage				
Everbright Water (Boxing) Ltd	Binzhou Boxing Wastewater Treatment Project	60,000	34,000	56.3	60,000	47,000	77.7	60,000	54,000	89.2
Qingdao EB-VW Waste Water Treatment Ltd.	Qingdao Wastewater Treatment Project (Maidao Plant)	140,000	118,000	84.1	140,000	119,000	85.2	140,000	121,000	86.4

Name of Target Group Company	Project	FY2011 Production capacity (tonnes/day)	FY2011 Utilisation (tonnes/day)	FY2011 Percentage of production capacity (%)	FY2012 Production capacity (tonnes/day)	FY2012 Utilisation (tonnes/day)	FY2012 Percentage of production capacity (%)	FY2013 Production capacity (tonnes/day)	FY2013 Utilisation (tonnes/day)	FY2013 Percentage of production capacity (%)
	Qingdao Wastewater Treatment Project (Haibohe Plant)	Ceased production since January 2011								
Everbright Water (Xinyi) Ltd	Xinyi BT Wastewater Treatment Project Phase 1	No commercial operations as this is a BT project								
	Xinyi BT Surface Water Project	No commercial operations as this is a BT project								
Everbright Water (Lingxian) Ltd	Ling County Wastewater Treatment Project (Plant 1)	30,000	14,000	45.0	30,000	21,000	70.0	30,000	22,000	72.3
	Ling County Wastewater Treatment Project (Plant 2)	30,000	17,000	57.7	30,000	21,000	70.0	30,000	22,000	74.3
	Ling County Wastewater Treatment Project Plant 1 (upgrade)	Upgrade to Ling County Wastewater Treatment Project (Plant 1)								
Everbright Reusable Water (Jiangyin) Ltd	Jiangyin Reusable Water Project	—	—	—	—	—	—	10,000	3,000	33.0

		FY2011			FY2012			FY2013		
Name of Target Group Company	Project	Production capacity	Utilisation	Percentage of production capacity (%)	Production capacity	Utilisation	Percentage of production capacity (%)	Production capacity	Utilisation	Percentage of production capacity (%)
Zibo Everbright Water Energy Development Ltd	Zibo Heat Pump Project Phase I	Cooling area: 87,100 m^2 Heating area: 125,000 m^2	Heating area: 30,000 m^2 (Official operations commenced in November 2011)	24.0	Cooling area: 87,100 m^2 Heating area: 125,000 m^2	Cooling Area: 54,000 m^2 Heating Area: 81,000 m^2	Cooling: 62.0 Heating: 65.0	Cooling area: 87,100 m^2 Heating area: 125,000 m^2	Cooling Area: 54,000 m^2 Heating Area: 81,000 m^2	Cooling: 62.0 Heating: 65.0
	Zibo Heat Pump Project Phase II	—	—	—	—	—	—	—	—	—

Notes:

(1) There is no option for an automatic extension of the relevant concession agreement (where applicable) upon expiry of the term. If any concession agreement (where applicable) was to be extended, it would have to involve re-negotiation with relevant government authority.

(2) For BT projects, the project company will transfer the project facilities and relevant documents and materials to the relevant municipal authority after the construction of the project facilities is completed. As such, concession agreements are not applicable to BT projects. Please refer to Section 3.6(iv) titled “Target’s Operations — BT Projects” of the Target Letter for further details.

(3) Zhangqiu Wastewater Treatment Project commenced commercial operations in August 2014. Accordingly, its utilisation is not yet meaningful.

The following table sets out details of the Target Group's material plans to construct, expand or improve facilities:

Name of project	Nature of construction	Reasons for construction	Total investment (RMB)	Financing methods	Expected commencement date	Expected completion date	Expected increase in capacity (tonnes per day)
Jinan Wastewater Treatment Project (Plant 4)	New construction	Production capacity overload	45,000,000	Internal cash resources and committed facilities	1 January 2015	1 December 2015	30,000
Zibo Wastewater Treatment Project (Plant 3) (Phase 2)	New construction	Required to fulfil expansion requirements in a year	100,000,000	Internal cash resources and committed facilities	1 January 2015	1 December 2015	80,000
Boxing Wastewater Treatment Project (Phase 2)	New construction	Required to fulfil expansion requirements in a year	64,000,000	Internal cash resources and committed facilities	1 April 2015	31 December 2015	20,000
Jiangyin Cheng Xi Wastewater Treatment Project (Phase 2)	New construction	Required to fulfil expansion requirements in a year	45,000,000	Internal cash resources and committed facilities	1 January 2015	1 December 2015	40,000
Zibo Zhoucun Wastewater Treatment Project (Phase 2)	New construction	Required to fulfil expansion requirements in a year	50,000,000	Internal cash resources and committed facilities	1 January 2016	1 December 2016	30,000
Dezhou Wastewater Treatment Project (Phase 2)	New construction	Required to fulfil expansion requirements in a year	799,700,000	Internal cash resources and committed facilities	1 January 2015	1 December 2015	75,000
Qingdao Renovation and Upgrading Project	Upgrade to Level 1 A	Local government's requirement to improve standards	310,000,000	Internal cash resources and committed facilities	1 July 2015	30 June 2016	—

3.8 Competition

(i) Industry Competition Pattern

(a) Competition of International Water Giants in the PRC Market

The multinational water groups that have come into the PRC market, such as Veolia, Suez and Berlinwasser, etc., have strong capital strength, and can show a certain capital advantage in the big projects above 200,000 tonnes/day, but in the medium and small projects, their competitive advantage is not obvious because of their comparatively higher management cost.

(b) Competition among Domestic Wastewater Treatment Enterprises

Domestic wastewater treatment enterprises mainly comprise local government-dominated enterprises and private enterprises.

The local government-dominated enterprises are the enterprises that, during the wastewater treatment privatisation reform of PRC, were formed from the state-owned enterprises by means of transformation, reconstruction or restructuring as dominated by the local governments. Such enterprises may benefit more from local policy support, and usually have the larger scale and capital strength. They may also have introduced some market competition mechanisms. Some such enterprises have gradually realized the transformation by means of going public, but they still show the comparatively regional features in their operation.

The private enterprises include listed companies such as Beijing Enterprises Water Group Limited, Beijing Capital Co., Ltd and Capital Environmental Protection Group Co., Ltd, etc. and other private enterprises. Such enterprises are very active in the domestic market have the ability to catch market opportunities, have relative good adaptability to the competition environment, and show relatively strong market competitiveness in many medium and small wastewater treatment projects. With privatisation speeding up, some of such enterprises will transform themselves into comprehensive service suppliers with a larger scale and more standardized management, while the remaining of them will gradually move towards specialization, and account for a certain share in the segmented market.

With the rapid development of PRC's environmental protection industry, the market scale will constantly expand over a long period, the wastewater treatment industry's market service demand will become gradually prominent, the industry will tend towards resource integration and cross-regional development, and the whole industry will gradually transform from regional competition to country-wide and even international competition. Thus the enterprises with advanced technology and service and big market share are likely to become industry leaders.

(ii) Extent of Privatisation of the Wastewater Treatment Industry

Before 2000, the extent of privatisation of PRC's wastewater treatment industry was low, and there was almost no industrial competition. In November 2000, the State Council promulgated the *Notice of the State Council on Strengthening the Urban Water Supply, Water Conservation and Water Pollution Prevention & Control*, symbolizing the beginning of wastewater treatment industry privatisation. After more than ten years of privatisation development, the extent of privatisation of the wastewater treatment industry has since improved. In November 2013, the Third Plenary Session of the 18th CPC Central Committee passed the *Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform* concerning the development of the environmental protection market, the promotion of energy conservation, carbon emission permit, pollutant emission right and water right trading system, the establishment of the privatisation mechanism absorbing social capital to biological environment protection, and the promotion of third-party control of environmental pollution.

With the deepening of the wastewater treatment industry's privatisation reform, the constant promulgation of industrial laws, regulations and policies, the gradual shift of systems and mechanisms to international convention, the gradual expansion of market scale, and the constant improvement of the market participants' comprehensive capacity, the privatisation of wastewater treatment industry is speeding up.

(iii) Main Competitors in the Wastewater Treatment Industry

The Target Group mainly targets the construction and operation of medium and small scale wastewater treatment projects. Based on the *China Water Market Study Report*, which shows the total wastewater treatment capacity and market share of water enterprises ranking as at 31 December 2012, the top 10 wastewater treatment enterprises, which include the main competitors of the Target Group, are as follows:

Total Wastewater Treatment Capacity and Market Share of Water Enterprises

Ranking	**Company name**	**Wastewater Treatment Capacity (10,000 m$^{(3)}$/day)**	**Market share (%)**
1	Beijing Enterprises Water	921.00	6.53
2	Beijing Capital	626.50	4.44
3	Capital Environmental Protection	425.05	3.01
4	Sound Environment	360.48	2.56
5	Veolia	270.26	1.92

Ranking	Company name	Wastewater Treatment Capacity (10,000 m(3)/day)	Market share (%)
6	SIIC Environment	243.75	1.73
7	Guozhen Environmental	221.77	1.57
8	Everbright International	170.00	1.21
9	General Water of China	145.40	1.03
10	HanKore Environment	145.00	1.03
Total		3,529.21	25.03

Source: www.h2o-china.com, China Water Market Study Report. www.h20-china.com has not consented to the inclusion of the information quoted in this section and it is therefore not liable for the inclusion of this information extracted from the information services provided by www.h2o-china.com. While reasonable actions have been taken to ensure that the information attributed to the abovementioned sources is reproduced in its proper form and context, and that the information is extracted accurately and fairly, there has been no independent review of the information extracted or verification of the accuracy of such information.

While the directors believe that the technology of the Target Group cannot be easily replicated, they nonetheless acknowledge that the emergence of competitors is inevitable in the long run. Notwithstanding the presence of competitors, the directors of CEWIL believe that CEWIL has certain competitive strengths that give them an edge over its competitors.

None of the directors and/or Substantial Shareholders of CEWIL or their respective Associates has any interest, direct or indirect, in any of the above-mentioned competitors.

3.9 Competitive Strengths

CEWIL believes that the following strengths differentiate the Target Group from its competitors as the Target Group aims to capture a leading position in the fast growing water and wastewater treatment industry in the PRC.

(i) CEWIL is a leading company for investing in and operating wastewater treatment facilities in China

CEWIL is a leading company for investing in and operating wastewater treatment facilities with the largest total wastewater treatment capacity in operation among wastewater treatment investment and operation service providers in China. As at 31 December 2013, the Target Group has a total of 21 wastewater treatment projects, four reusable water projects, two wastewater source heat pump projects and two BT water projects. The projects are designed with an annual wastewater treatment capacity of approximately 667,950,000 m^3 and provide annual reusable water of

22,484,000 m^3, and CEWIL's wastewater source heat pump projects cover a service area of 305,000 m^2. 14 of the wastewater treatment projects achieved Grade 1 Class A water discharge standard, the highest standard imposed in the PRC, enabling CEWIL to command higher wastewater treatment fees compared to projects with lower discharge grades.

CEWIL is among the first participants in the wastewater treatment industry in China with 11 years of experience of successfully implementing wastewater treatment projects. CEWIL entered into its first wastewater treatment project under the BOT model in 2003, and as at the Latest Practicable Date, CEWIL was engaged in a total of 21 wastewater treatment projects under service concession arrangements, including nine BOT projects, five TOT projects, two BOT/TOT projects and five BOO projects, concentrated in the provinces of Shandong and Jiangsu which offer strong local economies. CEWIL also had two completed water BT projects and has successfully locked in the future profits arising from these two projects. Furthermore, CEWIL has obtained the full qualification from construction to operation that meets the regulatory requirements for environmental control facilities, including Grade-A wastewater treatment operation qualification and Grade-A industrial wastewater treatment operation qualification. CEWIL is one of the few wastewater service providers to be granted the national Grade-A qualifications as a general contractor for municipal construction and for both industrial and municipal wastewater treatment, which CEWIL believes has enhanced its ability to obtain large-scale wastewater treatment projects.

(ii) CEWIL is well-positioned to benefit from significant growth opportunities in the wastewater treatment industry in China

The wastewater treatment industry presents significant growth potential. The PRC government is committed to investing in and has adopted favourable policies toward the wastewater treatment industry in China. According to industry reports, the PRC government plans to invest in wastewater treatment facilities across all municipality levels, with a particular focus on small-and medium-sized cities. The total wastewater treatment capacity of counties is expected to grow by approximately 50% during the 12th Five-Year Plan. CEWIL believes its substantial experience in providing wastewater treatment services, particularly in small- and medium-sized cities, together with CEWIL's strong market standing, positions CEWIL well to capitalize on the strong growth opportunities in CEWIL's industry.

At the early stages of CEWIL's projects, CEWIL closely communicates with CEWIL's customers, analysing and understanding their needs and analysing the wastewater CEWIL's facilities are to treat. When needed, CEWIL collaborates with independent third party institutes to conduct tests on the major sources of the primary pollutants in inflow wastewater and prepares designs to achieve the most appropriate wastewater treatment solution. Leveraging CEWIL's in-depth knowledge and practical experience in applying various technologies, CEWIL combines and integrates different wastewater treatment processes into its projects, aiming to develop cost-effective wastewater treatment solutions. CEWIL's tailor-made solutions aim to ensure the treated wastewater from CEWIL's facilities meet required standards while controlling CEWIL's construction and operation costs, thus achieving both environmental and economic benefits for both CEWIL and CEWIL's customers.

(iii) CEWIL has strong support from its holding company, a PRC State-Owned Enterprise and well-known brand

The controlling shareholder of the Target Company is CEIL, a publicly traded company listed on the main board of Hong Kong Stock Exchange (stock code: 00257). CEIL is mainly engaged in the environmental protection and new energy-based industry, focusing on green energy, green water and new energy for business development. It now has implemented more than 80 projects, with a total investment of about RMB30 billion. Currently, CEIL has become the largest waste to energy investment operator with a total of 27 projects and planned daily waste processing capacity of approximately 30,000 tonnes, the largest rooftop photovoltaic solar investment operator with an installed rooftop area of 273,000 m^2 and an installed capacity of 20MW, the largest leachate treatment investment operator with a daily leachate processing capacity of 3,350 tonnes and the largest wastewater source heat pump investment operator providing a heating and cooling service covering an area of 250,000 m^2 in China.

China Everbright Group, CEWIL's ultimate holding company, was founded in 1983, and is an important national backbone enterprise under the PRC central government. At the window of China's reform and opening up, after three decades of development, China Everbright Group has evolved into a large conglomerate engaged in banking, securities, insurance, asset management, futures, financial leasing and industries, making a positive contribution for China's reform and opening up efforts. As of the end of 2013, China Everbright Group has total assets of RMB2.6 trillion and pre-tax profit of RMB37 billion.

CEWIL believes that it is widely recognized in the PRC as a leading integrated water and wastewater treatment solution provider and as a highly reputable name in the sector as evidenced by CEWIL's numerous awards and accolades.

CEWIL has established its regional presence in Shandong and Jiangsu provinces where CEWIL's municipal wastewater projects are constructed and operated in compliance with the highest national standards, and are highly regarded by the local governments.

CEWIL's background of state-owned enterprise enables CEWIL to build long and stable relations with both central and provincial governments and earn opportunities to undertake large projects and gain access to larger pool of debt capital at lower cost.

(iv) CEWIL has a dedicated management team supported by experienced, proactive professionals and workforce with a strong track record

The extensive industry knowledge, experience and operational expertise of CEWIL's management team, including Chen Xiaoping and Wang Tianyi, have contributed to CEWIL's results-driven culture which emphasizes quality, efficiency and market responsiveness. Chen Xiaoping, being the Chief Executive Officer and Executive Director of CEIL, has over 13 years of experience in the environmental protection industry and possesses extensive knowledge of business management, investment and capital market. Having worked in China's environmental protection industry and the state-owned sector for many years, Chen Xiaoping possesses a deep understanding of the environmental protection industry in China. Wang Tianyi, the General Manager and Executive Director of CEIL, was the Deputy Mayor of Jinan City of Shandong Province and was the President of Shandong Academy of Science prior to joining the Board. Wang Tianyi has rich management experience in government and administrative sectors and he also has extensive experience in corporate business strategies and market development.

In addition, CEWIL's core management team has been very stable, and has an average of 10 years of management experience. CEWIL has built a first-class large-scale infrastructure project management team, engineering team and investment management team. CEWIL benefits significantly from the accumulated expertise and hands-on experience of its individuals and teams to continue to improve the efficiency of its operations and its ability to satisfy its customers' requirements. CEWIL trusts it has developed a corporate culture that promotes collaboration, efficiency, motivation, responsibility and achievement, which enables CEWIL to take advantage of market opportunities, formulate sound business strategies and execute them effectively. CEWIL's revenue and net profit attributable to equity shareholders grew at a CAGR of 22.9% and 14.6% respectively for the past two years, and achieved a revenue and net profit attributable to its equity shareholders of HK$1,291 million and HK$266 million in 2013 respectively.

(v) CEWIL has access to strong in-house R&D capabilities to increase CEWIL's profitability by focusing on technology commercialization and enhancing process design and operating efficiency

CEWIL believes that the expertise and experience of its in-house design team has been a key factor in its success.

In order to take first-mover advantage in technology, CEWIL's holding company CEIL has established Everbright Environmental Protection Technological Development (Beijing), a professional R&D centre specializing in environmental protection and new energy technology research, and is positioned to lead the development trend of domestic and foreign environmental technology through independent R&D, industry-university-research cooperation and technology transfer.

Up to now, the research team has undertaken 19 R&D projects, including six national-level and 13 provincial-level projects. One software copyright and 46 patents were authorized, including ten invention patents and 36 utility model patents.

Leveraging the experience of CEIL's design and R&D teams, CEWIL is able to customize and adapt its existing technologies to the differing challenges posed by wastewater treatment in diverse industries and a variety of pollutants. CEWIL believes its commercially driven approach to research and development helps to increase its profitability by focusing on technology commercialization and enhancing process design and operating efficiency.

3.10 Major Suppliers

Details of the Target Group's major suppliers accounting for five per cent. or more of Target Group's total purchases for each of FY2011, FY2012 and FY2013 are provided below:

Suppliers	Type of Products Purchased / Services Provided	Percentage of total purchase costs (%)		
		FY 2011	FY 2012	FY 2013
Zibo Municipal Power Supply Bureau	Electricity	7.19	7.64	3.50
Jinan Municipal Power Supply Bureau	Electricity	13.23	13.25	6.40

None of the directors and/or Substantial Shareholders of CEWIL or their respective Associates has any interest, direct or indirect, in any of the above-mentioned suppliers.

The directors of CEWIL believe that the business or profitability of the Target Group will not be materially affected by the loss of any single supplier and are currently not materially dependent on any particular industrial, commercial or financial contract with any supplier.

3.11 Major Customers

Details of the Target Group's major customers accounting for five per cent. or more of CEWIL's total revenue for FY2011, FY2012 and FY2013 are provided below:

Customers	Type of Services Provided	Percentage of total sales (%) FY 2011	FY 2012	FY 2013
Zibo Municipal Finance Bureau	Water	22.1	22.5	13.2
Jinan Municipal Finance Bureau	Water	37.8	37.2	22.3
Jiangyin Municipal Finance Bureau	Water	16.3	17.0	10.1
Qingdao Municipal Finance Bureau	Water	15.8	11.6	7.9

Jinan Municipal Finance Bureau is the sole customer of the Jinan Licheng Wastewater Treatment Project (Plant 3), the Jinan Licheng Reusable Water Project, the Jinan Wastewater Treatment Project (Plant 1), Jinan Wastewater Treatment Project (Plant 2) and the Jinan Xike Wastewater Treatment Project (Plant 4). The concession agreements for the Jinan Licheng Reusable Water Project and the Jinan Xike Wastewater Treatment Project (Plant 4) will expire in 2035 and the concession agreements for the Jinan Licheng Wastewater Treatment Project (Plant 3), the Jinan Wastewater Treatment Project (Plant 1) and the Jinan Wastewater Treatment Project (Plant 2) will expire in 2036. Provided that the existing business arrangements with Jinan Municipal Finance Bureau continue pursuant to the terms of the respective concession agreements, Jinan Municipal Finance Bureau's contribution to the Target Group's revenue should continue until the expiry of such concession agreements.

As the nature of the Target Group's projects is project-based and tends to be on a one-off basis, the Target Group may not be engaged in similar projects in terms of size and scope with the same customer in subsequent years. Any disruption to or sudden termination of the Target Group's existing business arrangements with its major customers will have an impact on the Target Group's financial results.

Save as disclosed in this Section 3.11 titled "Major Customers" of the Target Letter and Appendix E titled "Risk Factors" to this Circular, the directors of CEWIL believe that the business or profitability of the Target Group will not be materially affected by the loss of any single customer and are currently not materially dependent on any particular industrial, commercial or financial contract with any customer.

None of the directors and/or Substantial Shareholders of CEWIL or their respective Associates has any interest, direct or indirect, in any of the above-mentioned customers.

3.12 Seasonality

Revenue under the Target Group's service concession arrangements and BOT arrangements are subject to seasonal fluctuations. The Target Group generally recognises lower revenue in the winter season because the Target Group's projects in the northeast regions of China are often adversely influenced by climate conditions.

3.13 Employees

The functional distribution of full-time employees of the Target Group over FY2011, FY2012, and FY2013 is as follows:

Function	FY2011	FY2012	FY2013
Management	22	23	23
Operation	477	491	479
Finance	21	22	21
Administration	56	56	43
HR	3	3	1

To the best knowledge of the directors of the Target Group, there have been no employee disputes that have materially affected the Target Group's business and operations.

3.14 Research and Development ("R&D")

The Target Group conducts R&D activities and holds such patents as are necessary and relevant to the technology required to conduct the environmental water business carried on by the Target Group.

The table below sets out the amount spent on R&D activities and the percentage of the net sales or revenue of the Target Group in each of those years spent on such activities.

	FY2011	FY2012	FY2013
Expenses (RMB)	482,700	663,300	750,600
Percentage of Target Group Revenue (%)	0.07	0.06	0.07

As at the Latest Practicable Date, the Target Group holds the following patents:

Serial No.	Patent No.	Patent name	Authorization date	Expiry Date	Type (invention, utility model, appearance design)	Patentee	Inventor
1	200720157442.2	A kind of oxidation ditch high water level warning device	29 October 2008	30 November 2017	Utility model	China Everbright Water (Ji'Nan) Ltd.	Tao Junjie, Sun Linbo, Zhao Weiqiang, Sun Kai, Ma Lizhi
2	201220294139.8	A kind of mud scraper for radical sedimentation basin with algae removal function	7 November 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Su Meixia, Sun Kai, Ma Xinglong, Yu Yunpeng, Xie Xin
3	201220299695.4	Reciprocating mud scraper with anti-deviation and anti-slip function	31 October 2012	26 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Sun Kai, Gu Zhenyu, Liu Chao
4	201220294919.2	A kind of sludge paving and turning machine with biological deodorization function	25 October 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Tian Shun, Chen Wenjuan, Liu Jian, Yang Wenbo
5	201220294627.9	A kind of anaerobic-anoxic-aerobic biological nitrogen and phosphorus removal process testing device	24 October 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Tian Shun, Wang Jing, Sun Zihui, Chen Wenjuan
6	201220294434.3	A kind of cyclone desander that may simultaneously remove floats	24 October 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Wei Leilei

Serial No.	Patent No.	Patent name	Authorization date	Expiry Date	Type (invention, utility model, appearance design)	Patentee	Inventor
7	201220294446.6	A kind of long-handle sampler	11 December 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, Tian Shun, Wei Leilei, Yang Xi, Liu Jian
8	201220294178.8	A kind of microorganism water sampler	7 November 2012	21 June 2022	Utility model	China Everbright Water (Ji'Nan) Ltd.	Sun Linbo, An Peng

3.15 Quality Control

The Target Group places high emphasis on quality assurance in its operations as it believes that quality design and construction is instrumental to maintaining its reputation and success.

The Target Group conforms strictly to the quality standards required by the PRC regulatory authorities. The Target Group also implements a quality assurance system and institutes quality control procedures throughout its entire treatment process in order to ensure that its products are in accordance with the relevant quality assurance requirements. The Target Group has consistently achieved Grade-A sewage treatment operation qualification and Grade-A industrial wastewater treatment operation qualification in respect of the effluent water produced by its wastewater treatment plants.

The Target Group evaluates its quality assurance protocol from time to time to determine whether they have been effective in ensuring that its wastewater treatment systems are of good quality. Where necessary, the Target Group would revise and improve its protocol. As part of its evaluation process, the Target Group also evaluates its work procedures and formulates corrective measures to rectify errors during production and preventive measures to ensure that errors are not repeated in future production.

The Target Group's production processes and quality control processes are set out below:

(i) Function Allocation during the Production Process

The operational management department is responsible for establishing, assigning and implementing the checks and statistics.

Each plant manufactures according to the organizational plan. It is also responsible for the entire wastewater treatment process and ensures that the effluent reaches the standard and is discharged.

The operational management department is responsible for CEWIL's equipment management and procurement and management of the spare parts of the production equipment.

The production technology department is responsible for CEWIL's maintenance of the electrical, automation, instrumentation and monitoring equipment. It organises and coordinates the major repairs and outsources the maintenance of equipment at each plant.

The laboratory is responsible for collecting and testing the water samples.

(ii) Production Control Procedure

When each plant undergoes production plan adjustments, changes in process parameters, conversion in operating mode, disruptions to the electricity feed and other production schedule, the various plant process scheduling staff are responsible for the explanations, details and coordination. After approval by the plant director, the staff completes the "Production Scheduling Instructions" and sends it to the relevant department for implementation. Subsequently, the staff explains the situation to the plant director and monitors the implementation based on the instructions. In the event that staff operates under no instructions in emergency situations, the staff will explain the situation to the plant director.

The department designated to implement the process of the sewage treatment equipment operations is responsible for the operation of the equipment. Other departments do not have the rights to operate the equipment.

Each plant is responsible for the repairs and maintenance of the production equipment in the plant, and daily maintenance work of the electrical, automation and monitoring of instruments. Each plant should work with the production technology department to handle the electrical, automation, monitoring and instrument maintenance work.

The laboratory centre should receive the water samples and mud samples sent by each plant daily before 9:00 am for inspection, and feedback to each plant before 4:30 pm each day. The plants shall adjust the process parameters based on the laboratory results to ensure that the effluent meets the standard.

3.16 Sales and Marketing

The Target Group's marketing process mainly comprises five stages, namely: obtaining project information, appraisal and deliberation, organising the bidding process, implementing the project and making the post-project appraisal. Details of each stage are set out as follows:

(i) Obtaining Project Information

The Target Group makes full use of the resources of more than 30 Target Group Companies and adopts the "Big Region Management System" and "Sub-region

Responsibility System", *i.e.*, the specialists of each region will be responsible to track and collect the project information of that region, and submit such information to the Investment and Development Department, which will summarize such information and make the project information classification management by dividing the information into A-class, B-class and C-class.

(ii) Appraisal and Deliberation

After obtaining the inquiry/bidding documents from the project owner, the Target Group will, according to the project classification, require the relevant project marketing team to prepare and submit the project appraisal and deliberation report, which mainly covers the project fund source, client credit, competitor analysis, technology feasibility and bidding scheme, etc. A meeting of the general managers will be convened to make a decision on the viability of each project after appraising and deliberating such report.

(iii) Organising the Bidding Process

After the project is approved, the Investment and Development Department will lead relevant departments to prepare the bidding documents, mainly including: making the project bidding/quotation plan, the technology manager of the project bidding group supervises the preparation of the technical proposal, and the project bidding group supervises the preparation of the project implementation proposal. After the first draft of the project implementation proposal is examined by the project bidding group chief, it is submitted to the senior management of the Target Group for deliberation. The quotation documents submitted to clients strictly conform to the document type, seal form, quantity and submission requirements as stipulated in the bidding/inquiry documents, and will be submitted to the clients prior to the day when the bidding ends.

(iv) Implementing the Project

After the bidding succeeds, the Target Group will, according to the project content, business demand and contract requirement, implement the project by dividing it into different business segments such as investment, operation and EPC, etc.

(v) Making the Post-project Appraisal

Following completion of each project, the Target Group seeks to constantly improve and perfect the relevant systems and management modes by a complete analysis and appraisal of the entire process of the project, summarizing the main experience and shortage which had a decisive influence to the project and would have significant relevance to future similar projects.

3.17 Staff Training

The Target Group has a policy that employees should be provided with the relevant skills and knowledge to effectively carry out their work. Training programmes have been annually developed and implemented for new employees, existing employees and management employees on the basis of employee feedback and analysis of the requirements of each position within the Target Group. The content of the training programmes include work affairs, management methods, strategies, and particularly, professional technologies.

(i) Management Training

Various forms of training programmes (conducted on-site, through centralised training or by remote video) are provided for high level and middle level management of each Target Group Company. These include but are not limited to various diploma programmes, for example, the Qinghua University CEO class and engineering master class.

(ii) Employee Training

Each Target Group Company also organises regular and ad-hoc training programmes annually on the basis of feedback from employees and analysis of the requirements of the technical personnel in each Target Group Company.

The training programmes include new employee training, relevant knowledge training for management personnel, and special training for professional technical personnel and skilled personnel.

The training programmes for professional technical personnel and skilled personnel include sewage treatment operator training, sewage treatment technical management personnel training, and post training for water quality inspection personnel of the urban drainage industry, ground operation training for bridge crane drivers, stationary pressure vessel operation training, professional training for hydrogen sulfide poisoning precaution; training for dangerous chemical care, safety administrator training, high-voltage and low-voltage electrician training, in-factory motor vehicle driving training, wastewater monitoring training; and sanitary pressure vessel operation training.

3.18 Awards and Accolades

In 2013, the CEIL Group received several awards including the Outstanding Brand Awards 2013 (Environmental Protection and Alternative Energy Category), Gold Award at The Excellence in Management and Corporate Governance Awards 2013, first place in the Top Ten Influential Solid Waste Treatment Enterprises in China, and the Hong Kong Outstanding Enterprise Award for the seventh consecutive year. The awards highlight the significant achievements the CEIL Group has made during the year and the wide recognition from the community for the CEIL Group's perseverance and efforts in the environmental protection business.

3.19 Environment and Safety

The Target Group is subject to, among other PRC laws and regulations promulgated by the central and local governments, the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Measures on Administration of the Licensing Qualifications for Operation of Environmental Pollution Treatment Facilities and Regulations on the Administration of Construction Project Environmental Protection. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by the sewage treatment plant before the relevant authorities will grant the approval for the commencement of construction of the project of the sewage treatment plant. In addition, upon completion of the project of the sewage treatment plant, the relevant environmental regulatory authorities will also inspect the sewage treatment plant to ensure compliance with the applicable environmental protection standards and regulations before the commencement of operations of the sewage treatment plant. In order to operate environmental pollution control facilities, the Target Group is required to obtain the Qualification Licence for Operation of Environmental Pollution Control Facilities. Similarly, sewage treatment plants that discharge materials into the environment are required to obtain the Pollution Discharge Permit or register for the Pollution Discharge Application and Report.

The Target Group has not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations, nor is it aware of any threatened or pending action by any environmental regulatory authority in any of the jurisdictions where it operates, which would have a material impact on its business or operations.

3.20 Corporate Social Responsibility

Currently, the Target Group has established practices to fulfil its role as a responsible corporate citizen. CEIL also issued its first ever Sustainability Report in April 2013. The report outlines the Target Group's approaches, commitment and strategies to sustainability. It highlights the Target Group's economic, environmental and social performance, and sets out its long and short term future plans and targets. The Target Group's three main aspects to fulfilling its corporate social responsibility are as follows:

(i) Safeguarding the Environment

The Target Group is keen to reduce impacts on the environment from its daily operations. The Target Group has implemented various measures to strengthen its environmental performance. All its operating plants have been ISO 14001 certified to demonstrate its dedication in meeting the international standards of environmental management system. A structured and systematic mechanism has been established to integrate environmental safeguards in project planning, preparation, design and implementation stage. The Target Group is committed to ensuring that its operations adhere to the requirements of national standards and international financial institutions such as Asian Development Bank and International Finance Corporation.

As an environmental protection enterprise using renewable energy to generate electricity and processing wastewater, the Target Group continues to play a significant role in combating climate change. In 2013, its waste-to-energy projects, biomass power generation project, solar photovoltaic projects and methane-to-energy projects generated a total of 1,552.98 GWh of electricity and helped offset 1.86 million tonnes of CO2 emissions. The Target Group's wastewater treatment operation in 2013 treated a total of 526.48 million m^3 of wastewater and 0.92 million m^3 of leachate and reduced 0.19 million tonnes of COD emissions.

(ii) Community Engagement

The Target Group is dedicated to developing close long-term relationships with the communities to create a better living environment for the people. The Target Group invests great efforts in engaging with the community through volunteerism, environmental protection education, disaster relief and philanthropy. Its employees are strongly encouraged to volunteer their time and skills for community engagement activities and the Target Group continues to provide various platforms for their involvement.

As an environmental protection enterprise, the Target Group is keen to play a pivotal role in environmental protection by leveraging on its technology, resources and expertise. In 2013, the Target Group project companies actively participated in National Science Popularisation Day, World Water Day and World Environment Day to promote advance technology in environmental protection technology and raise public awareness on environmental protection. In March 2013, its Shenzhen office established an exhibition hall, which is one of the designated Science Popularisation and Education Bases in Shenzhen where different groups of people can visit and get hands-on experience in environmental protection. In addition, the Target Group project companies in different locations have also been designated as the environmental protection bases and play an active role in promoting environmental protection awareness among schools and the community.

The Target Group project companies regularly organise site visits and study tours for students, investors, government officials, counterparts and the general public. The visits to the Target Group project sites allow the visitors to have a hands-on experience in visualizing sustainability concepts in real life examples of green energy generation, emissions, reduction and wastewater treatment. In 2013, there were 21,830 visitors to the Target Group environmental protection projects.

(iii) Community Well-being

Everbright International Environmental Protection Charitable Foundation

To further improve the efficiency of the Target Group's community programmes, the Target Group successfully set up Everbright International Environmental Protection Charitable Foundation Company Limited in Hong Kong in August 2013. The foundation company will manage the Everbright International Environmental Protection Charitable Foundation and coordinate all its charitable projects in areas including environmental protection education, energy-saving, ecological conservation and community caring.

Everbright Environmental Protection Charitable Foundation

Meanwhile, Suzhou Project Company is a co-founder of Everbright Environmental Protection Charitable Foundation with the Suzhou Environmental & Municipal Administration Bureau and Suzhou Charity Federation. The foundation was established in June 2013 and a donation of RMB1.5 million will be made annually to the foundation for helping Suzhou's sanitation workers and families who are facing difficulties and in need of financial and emotional support. In September 2013, the foundation provided its first batch of financial aids to 96 eligible sanitation workers.

Everbright International True Love School

Giving back to society is the Target Group's core value, so at the time that the Dangshan Biomass Power Generation Project was being prepared in 2010, the Target Group underwent a RMB6 million school renovation project with a donation of computers and textbooks to establish Everbright International True Love School in Dangshan. The school which was officially founded in September 2011, has been equipped with state-of-the-art facilities, comprehensive teaching equipment, playground, music and dance rooms to provide the students with a pleasant learning environment. Meanwhile, the Target Group has set up a True Love Fund to provide the students with financial support and recognise the outstanding students.

The Target Group encourages its employees to be acting teachers of the school, and many of them are keen to get involved. In September 2013, the Target Group sent its third batch of volunteers to Everbright International True Love School as acting teachers for six months, with the primary responsibility of assisting in teaching English, fine art and music.

3.21 Insurance

CEWIL takes out full insurance policies to insure the construction and operation of each project in which it invests, including the following:

(i) **During construction:** Each Target Group Company, as the owner of each project, will take out insurance policies for all necessary risks relating to the contractor, the insurance sum being the engineering cost (less the retained working capital), and the beneficiary being the relevant Target Group Company, CEWIL and the engineering and construction contractors. During the course of construction, each Target Group Company will take out life accident insurance policies for its employees, and require the engineering and construction contractors to take out third-party liability insurance policies, as well as life accident insurance policies for their respective employees. The period of insurance will commence from the commencement of the engineering and construction process to the expiration of six months after the completion inspection and acceptance.

(ii) **During project operation**: Each Target Group Company will buy the property all risks insurance and machinery breakdown insurance as the owner, and the insurance sum will be respectively the property all risks insurance (total value of fixed assets) and machinery breakdown insurance (total value of machinery equipment); and for some of the specific projects, the Target Group Company will buy the profit loss insurance subordinate to the machinery breakdown insurance according to the requirement of the financing bank.

CEWIL strictly requires full insurance to be bought for each project during the project construction and operation phases.

4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected financial information of the Target Group should be read in conjunction with the full text of this Circular, including Appendix H titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Financial Years ended 31 December 2011, 2012 and 2013" and Appendix I titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Six Months ended 30 June 2014" to this Circular.

CONSOLIDATED INCOME STATEMENTS
(Expressed in Hong Kong dollars)

	Year ended 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Turnover	**854,532**	**1,391,027**	**1,290,740**
Direct costs and operating expenses	(399,497)	(906,305)	(761,478)
	455,035	484,722	529,262
Other revenue	10,138	22,093	17,290
Other loss	(349)	(12)	(84)
Administrative expenses	(55,438)	(49,740)	(65,714)
Profit from operations	**409,386**	**457,063**	**480,754**
Finance costs	(106,357)	(90,682)	(78,759)
Profit before taxation	**303,029**	**366,381**	**401,995**
Income tax	(72,228)	(98,149)	(111,553)
Profit for the year	**230,801**	**268,232**	**290,442**
Attributable to:			
Equity shareholders of the Company	203,026	246,676	266,486
Non-controlling interests	27,775	21,556	23,956
Profit for the year	**230,801**	**268,232**	**290,442**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in Hong Kong dollars)

	Year ended 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Profit for the year	230,801	268,232	290,442
Item that may be reclassified subsequently to profit or loss:			
- Exchange difference on translation of financial statements of subsidiaries, net of nil tax	89,053	23,682	83,148
Total comprehensive income for the year	**319,854**	**291,914**	**373,590**
Attributable to:			
Equity shareholders of the Company	278,665	270,856	340,697
Non-controlling interests	41,189	21,058	32,893
Total comprehensive income for the year	**319,854**	**291,914**	**373,590**

CONSOLIDATED BALANCE SHEETS
(Expressed in Hong Kong dollars)

	As at 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Non-current assets			
Fixed assets			
- Property, plant and equipment	98,209	181,350	162,628
- Interest in leasehold land held for own use under operating leases	7,941	7,703	7,587
	106,150	189,053	170,215
Intangible assets	64,798	146,862	148,043
Goodwill	9,538	9,538	9,538
Interest in associate	—	—	—
Other receivables and deposits	1,698,239	1,765,026	1,891,766
Gross amounts due from customers for contract work	1,610,289	1,923,673	2,149,181
	3,489,014	4,034,152	4,368,743
Current assets			
Inventories	8,476	8,174	7,162
Debtors, other receivables, deposits and prepayments	267,646	322,762	422,193
Gross amounts due from customers for contract work	170,048	251,326	298,234
Tax recoverable	—	2,349	3,741
Pledged bank deposits	106,333	46,289	43,468
Cash and cash equivalents	448,435	170,552	246,945
	1,000,938	801,452	1,021,743

	As at 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Current liabilities			
Bank loans			
- Secured	227,304	236,931	237,870
- Unsecured	72,816	54,967	39,901
	300,120	291,898	277,771
Creditors, other payables and accrued expenses	252,586	476,369	619,999
Current taxation	6,348	17,906	22,271
	559,054	786,173	920,041
Net current assets	**441,884**	**15,279**	**101,702**
Total assets less current liabilities	**3,930,898**	**4,049,431**	**4,470,445**
Non-current liabilities			
Bank loans			
- Secured	726,663	575,451	423,098
- Unsecured	233,577	197,359	163,060
	960,240	772,810	586,158
Other loans	55,350	—	—
Other payables	1,309,131	1,413,693	1,587,389
Deferred tax liabilities	191,455	245,123	305,503
	2,516,176	2,431,626	2,479,050
Net assets	**1,414,722**	**1,617,805**	**1,991,395**
Capital and reserves			
Share Capital	—*	—*	—*
Reserves	1,037,334	1,308,190	1,648,887
Total equity attributable to equity shareholders of the Company	**1,037,334**	**1,308,190**	**1,648,887**
Non-controlling interests	**377,388**	**309,615**	**342,508**
Total Equity	**1,414,722**	**1,617,805**	**1,991,395**

* The balances represent amounts less than HK$1,000.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company					Non-	
	Share capital ($'000)	Exchange reserve ($'000)	Reserve fund ($'000)	Retained profits ($'000)	Total ($'000)	controlling interests ($'000)	Total equity ($'000)
Balance at 1 January 2011	—*	170,456	25,052	563,161	758,669	336,199	1,094,868
Changes in equity for 2011:							
Profit for the year	—	—	—	203,026	203,026	27,775	230,801
Other comprehensive income	—	75,639	—	—	75,639	13,414	89,053
Total comprehensive income	—	75,639	—	203,026	278,665	41,189	319,854
Transfer to reserve fund	—	—	12,077	(12,077)	—	—	—
Balance at 31 December 2011 and 1 January 2012	—*	246,095	37,129	754,110	1,037,334	377,388	1,414,722
Changes in equity for 2012:							
Profit for the year	—	—	—	246,676	246,676	21,556	268,232
Other comprehensive income	—	24,180	—	—	24,180	(498)	23,682
Total comprehensive income	—	24,180	—	246,676	270,856	21,058	291,914
Transfer to reserve fund	—	—	15,237	(15,237)	—	—	—
Capital refunded to non-controlling shareholder	—	—	—	—	—	(73,908)	(73,908)
Dividend paid to non-controlling shareholders	—	—	—	—	—	(14,923)	(14,923)
Balance at 31 December 2012 and 1 January 2013	—*	270,275	52,366	985,549	1,308,190	309,615	1,617,805
Changes in equity for 2013:							
Profit for the year	—	—	—	266,486	266,486	23,956	290,442
Other comprehensive income	—	74,211	—	—	74,211	8,937	83,148
Total comprehensive income	—	74,211	—	266,486	340,697	32,893	373,590
Transfer to reserve fund	—	—	19,613	(19,613)	—	—	—
Balance at 31 December 2013	—*	344,486	71,979	1,232,422	1,648,887	342,508	1,991,395

* The balances represent amounts less than HK$1,000.

CONSOLIDATED CASH FLOW STATEMENTS
(Expressed in Hong Kong dollars)

	Year ended 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Operating activities			
	303,029	366,381	401,995
Adjustments for:			
Depreciation	6,386	8,810	13,913
Amortisation of intangible assets	—	2,032	2,945
Amortisation of interest in leasehold land held for won use under operating leases	105	322	330
Finance costs	106,357	90,682	78,759
Interest income	(6,546)	(11,732)	(6,798)
Net loss on sale of property, plant and equipment	349	12	84
Effect of foreign exchange rates changes	(7,060)	(7,832)	(1,513)
Changes in working capital:			
Decrease in inventories	520	396	1,244
Decrease/(increase) in debtors, other receivables, deposits and prepayments	595,470	(125,047)	(130,471)
Increase in gross amounts due from customers for contract work	(570)	(374,977)	(210,678)
(Decrease)/increase in creditors, other payables and accrued expenses	(202,819)	123,816	149,573
Cash generated from operations	795,221	72,863	299,383
Interest received	6,546	11,732	6,798
People's Republic of China ("PRC") income tax paid	(24,036)	(37,982)	(55,909)
Net cash generated from operating activities	777,731	46,613	250,272
Investing activities			
Payment for purchase of property, plant and equipment	(52,057)	(88,274)	(12,290)
Payment for additions of interest in leasehold land held for own use under operating leases	(7,882)	—	—
Payment for additions of intangible assets	(24,414)	(82,432)	—
Proceeds from sale of property, plant and equipment	114	—	—
(Increase)/decrease in amounts due from intermediate holding company	(55,768)	71,820	(40,133)
Increase in loan receivable	—	(49,172)	—
Net cash used in investing activities	(140,007)	(148,058)	(52,423)

	Year ended 31 December		
	2011	**2012**	**2013**
	($'000)	**($'000)**	**($'000)**
Financing activities			
Proceeds from new bank loans	62,238	113,805	85,861
Repayment of bank loans	(515,310)	(320,983)	(313,611)
Repayment of other loans	—	(55,318)	—
Increase in amount due to a fellow subsidiary	13,716	95,520	2,389
Increase in amounts due to immediate holding company	92,446	147,919	167,455
(Decrease)/increase in amounts due to intermediate holding company	(311)	(43,357)	6,241
Capital refunded to non-controlling shareholder	—	(73,908)	—
(Increase)/decrease in pledged bank deposits	(91,404)	60,516	4,135
Interest paid	(106,357)	(90,682)	(78,759)
Dividend paid to non-controlling shareholders	—	(14,923)	—
Net cash used in financing activities	(544,982)	(181,411)	(126,289)
Net increase/(decrease) in cash and cash equivalents	92,742	(282,856)	71,560
Cash and cash equivalents at beginning of the year	341,897	448,435	170,552
Effect of foreign exchange rates changes	13,796	4,973	4,833
Cash and cash equivalents at end of the year	448,435	170,552	246,945

Consolidated income statement for the six months ended 30 June 2014
(Expressed in Hong Kong dollars)

	Six months ended June 30	
	2014	2013
	($'000)	($'000)
		(unaudited)
Turnover	505,837	574,407
Direct costs and operating expenses	(196,694)	(317,564)
	309,143	256,843
Other revenue	3,911	5,129
Other loss	(148)	(51)
Administrative expenses	(30,922)	(33,399)
Profit from operations	281,984	228,522
Finance costs	(34,738)	(38,323)
Profit before taxation	247,246	190,199
Income tax	(69,056)	(56,488)
Profit for the period	178,190	133,711
Attributable to:		
Equity shareholders of the Company	165,999	125,644
Non-controlling interests	12,191	8,067
Profit for the period	178,190	133,711

Consolidated statement of comprehensive income
for the six months ended 30 June 2014
(Expressed in Hong Kong dollars)

	Six months ended June 30	
	2014	**2013**
	($'000)	**($'000)**
		(unaudited)
Profit for the period	178,190	133,711
Other comprehensive income for the period:		
Item that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of financial statements of subsidiaries, net of nil tax	(82,326)	39,979
Total comprehensive income for the period	95,864	173,690
Attributable to:		
Equity shareholders of the Company	92,092	161,178
Non-controlling interests	3,772	12,512
Total comprehensive income for the period	95,864	173,690

Consolidated balance sheet at 30 June 2014
(Expressed in Hong Kong dollars)

	June 30, 2014 ($'000)	December 31, 2013 ($'000)
Non-current assets		
Fixed assets		
- Property, plant and equipment	153,549	162,628
- Interest in leasehold land held for own use under operating leases	7,231	7,587
	160,780	170,215
Intangible assets	141,751	148,043
Goodwill	9,538	9,538
Interest in associate	—	—
Other receivables and deposits	1,712,199	1,891,766
Gross amounts due from customers for contract work	2,087,120	2,149,181
	4,111,388	4,368,743
Current assets		
Inventories	7,601	7,162
Debtors, other receivables, deposits and prepayments	408,134	422,193
Gross amounts due from customers for contract work	262,831	298,234
Tax recoverable	—	3,741
Pledged bank deposits	53,008	43,468
Cash and cash equivalents	316,013	246,945
	1,047,587	1,021,743
Current liabilities		
Bank loans		
- Secured	229,350	237,870
- Unsecured	38,891	39,901
	268,241	277,771
Creditors, other payables and accrued expenses	317,877	619,999
Current taxation	21,356	22,271
	607,474	920,041
Net current assets	440,113	101,702

	June 30, 2014 ($'000)	December 31, 2013 ($'000)
Total assets less current liabilities	4,551,501	4,470,445
Non-current liabilities		
Bank loans		
- Secured	390,095	423,098
- Unsecured	169,399	163,060
	559,494	586,158
Other payables	363,138	1,587,389
Deferred tax liabilities	331,560	305,503
	1,254,192	2,479,050
Net assets	3,297,309	1,991,395
CAPITAL AND RESERVES		
Share capital	—*	—*
Reserves	2,951,029	1,648,887
Total equity attributable to equity shareholders of the Company	2,951,029	1,648,887
Non-controlling interests	346,280	342,508
Total equity	3,297,309	1,991,395

* The balances represent amounts less than $1,000.

Consolidated statement of changes in equity for the six months ended 30 June 2014 (Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company							
	Share capital ($'000)	Share premium ($'000)	Exchange reserve ($'000)	Reserve fund ($'000)	Retained profits ($'000)	Total ($'000)	Non-Controlling interests ($'000)	Total Equity ($'000)
Balance at 1 January 2013	—*	—	270,275	52,366	985,549	1,308,190	309,615	1,617,805
Changes in equity for the six months ended 30 June 2013 (unaudited):								
Profit for the period	—	—	—	—	125,644	125,644	8,067	133,711
Other comprehensive income	—	—	35,534	—	—	35,534	4,445	39,979
Total comprehensive income	—	—	35,534	—	125,644	161,178	12,512	173,690
Balance at 30 June 2013 (unaudited)	—*	—	305,809	52,366	1,111,193	1,469,368	322,127	1,791,495
Balance at 1 January 2014	—*	—	344,486	71,979	1,232,422	1,648,887	342,508	1,991,395
Changes in equity for the six months ended 30 June 2014:								
Profit for the period	—	—	—	—	165,999	165,999	12,191	178,190
Other comprehensive income	—	—	(73,907)	—	—	(73,907)	(8,419)	(82,326)
Total comprehensive income	—	—	(73,907)	—	165,999	92,092	3,772	95,864
Issue of ordinary shares	—*	1,210,050	—	—	—	1,210,050	—	1,210,050
Balance at 30 June 2014	—*	1,210,050	270,579	71,979	1,398,421	2,951,029	346,280	3,297,309

* The balances represent amounts less than $1,000.

Consolidated cash flow statements for the six months ended 30 June 2014
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	**2013**
	($'000)	**($'000)**
		(unaudited)
Operating activities		
Profit before taxation	247,246	190,199
Adjustments for:		
Depreciation	6,522	7,363
Amortisation of intangible assets	2,565	1,245
Amortisation of interest in leasehold land held for own use under operating leases	165	164
Finance costs	34,738	38,323
Interest income	(906)	(3,328)
Net loss on sale of property, plant and equipment	148	51
Effect of foreign exchange rates changes	3,984	(2,639)
Changes in working capital:		
(Increase)/Decrease in inventories	(620)	914
Increase in debtors, other receivables, deposits and prepayments	(80,869)	(54,189)
Decrease/(Increase) in gross amounts due from customers for contract work	35,461	(132,967)
Decrease in creditors, other payables and accrued expenses	(241,555)	(5,162)
Cash generated from operations	6,879	39,974
Interest received	906	3,328
People's Republic of China ("PRC") income tax paid	(32,127)	(31,387)
Net cash generated from operating activities	(24,342)	11,915
Investing activities		
Payment for purchase of property, plant and equipment	(1,714)	(3,898)
Proceeds from sale of property, plant and equipment	47	—
Decrease in amounts due from intermediate holding company	—	2,050
Repayment from loan receivables	49,860	—
Net cash generated from/(used in) investing activities	48,193	(1,848)

	Six months ended 30 June	
	2014	2013
	($'000)	($'000)
		(unaudited)
Financing activities		
Proceeds from new bank loans	110,225	7,936
Repayment of bank loans	(124,661)	(160,312)
Increase in amount due to a fellow subsidiaries	134,465	104,639
(Decrease)/Increase in amounts due to immediate holding company	(200,464)	128,919
Increase in amounts due to intermediate holding company	177,266	733
(Increase)/decrease in pledged bank deposits	(10,641)	19,379
Interest paid	(34,738)	(38,323)
Net cash generated from financing activities	51,452	62,971
Net increase in cash and cash equivalents	75,303	73,038
Cash and cash equivalents at 1 January	246,945	170,552
Effect of foreign exchange rates changes	(6,235)	2,410
Cash and cash equivalents at 30 June	316,013	246,000

5. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion of the business, financial condition and results of operations of the Target Group for the past three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 should be read in conjunction with the "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Financial Years Ended 31 December 2011, 2013 and 2013" as set out in Appendix H to this Circular and the "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Six Months Ended 30 June 2014" as set out in Appendix I to this Circular. This discussion contains forward-looking statements that involve risks and uncertainties. The actual results of the Target Group may differ significantly from those projected in the forward looking-statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in Appendix E titled "Risk Factors" to this Circular.

5.1 Description of Selected Income Statement Line Items

Turnover

The Target Group's turnover consists of turnover generated from its wastewater treatment plants, reusable water treatment plants and water source heat pump projects. Turnover represents the revenue from construction services, revenue from operation services and finance income.

The following table sets out the amount of the Target Group's turnover contributed by each significant category of revenue recognized in turnover for the years and periods indicated:

	Year ended December 31						Six months ended June 30			
	2011		2012		2013		2013		2014	
	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total
Construction services	178,903	20.9%	648,084	46.6%	449,779	34.8%	199,702	34.8%	80,999	16.0%
Operation services	431,275	50.5%	507,687	36.5%	564,772	43.8%	242,037	42.1%	284,887	56.3%
Finance income	244,354	28.6%	235,256	16.9%	276,189	21.4%	132,668	23.1%	139,951	27.7%
Total	854,532	100.0%	1,391,027	100.0%	1,290,740	100.0%	574,407	100.0%	505,837	100.0%

Construction services

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognized profit less recognized losses and progress billings, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Debtors, other receivables, deposits and prepayments".

For the three financial years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, turnover from construction services represented 20.9%, 46.6%, 34.8% and 16.0%, respectively, of the Target Group's total turnover for the respective years and period indicated.

The percentages of construction service revenue to total turnover vary dependent on the construction works carried out in that year or period.

Operation services

Revenue from operation services are recognized when the related services are rendered.

For the three financial years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, turnover from operation services represented 50.5%, 36.5%, 43.8% and 56.3%, respectively, of the Target Group's total turnover for the respective years and period indicated.

The percentages are dependent on the amount of construction service revenue recognized during that year or period.

Finance income

Finance income on the financial assets is recognized using an estimate of the service concession grantors' incremental borrowing rate of interest.

The Target Group's finance income represented 28.6%, 16.9%, 21.4% and 27.7% of the Target Group's total turnover for 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

The recognition of finance income is dependent on the beginning and ending balances of gross amounts due from customers for contract work and other receivables under IFRIC12.

Cost of sales

The Target Group's cost of sales primarily consists of: (i) costs recognized for construction contracts which may fluctuate from period to period as the Target Group's costs in any period depend on the EP contracts and construction progress of the projects in the relevant financial period; and (ii) the direct costs of operating its water plants such as direct labor costs, repair and maintenance costs, electricity costs, cost of chemicals used to treat the wastewater, plant maintenance, sludge treatment costs.

Gross profit and gross profit margin

Gross profit represents turnover less cost of sales. Gross profit margin is the Target Group's gross profit divided by turnover, expressed as a percentage.

The Target Group's overall high gross profit margin during the past three financial years and six months ended June 30, 2014 was primarily attributable to the following reasons: (i) the Target Group's wastewater treatment services to multiple customers, which has allowed the Target Group to achieve economies of scale and reduce its treatment costs as it was able to utilize the infrastructure and technologies specific for treating large quantities of wastewater from similar sources and containing similar pollutants; (ii) profit contribution from new projects which commenced commercial operation during the periods and (iii) the Target Group's ability to increase the unit price charged for its wastewater treatment services in relation to multiple wastewater treatment projects such as Zibo Zhoucun Wastewater Treatment Project and Binzhou Boxing Wastewater

Treatment Project after obtaining consent or approval from the local government authorities. In respect of (iii), the Target Group is allowed to make applications for tariff review every two to three years according to the price escalation clauses in the concession agreements, and the Target Group has been able to secure tariff hikes from the relevant municipal governments based on its good working relationship with the relevant municipal governments.

The Target Group's gross profit margin depends upon a combination of factors, including the volume of the Target Group's services, the prices at which the Target Group charge for the Target Group's services, the cost of raw materials, the construction services as well as the Target Group's labour and overhead costs.

Other revenue and other loss

Other revenue primarily consists of interest income generated from amounts due from related parties, interest income generated from loan receivables bank deposits and government grants.

Government grants are recognized in the balance sheet initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

The following table sets forth a breakdown of the Target Group's other revenue for the years and periods indicated:

	Year ended December 31						Six months ended June 30			
	2011		2012		2013		2013		2014	
	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total	(HK$ '000)	% of Total
Interest income	6,546	64.6%	11,732	53.1%	6,798	39.3%	3,328	64.9%	906	23.2%
Government grant*	1,084	10.7%	922	4.2%	2,786	16.1%	—	0.0%	1,204	30.8%
Others	2,508	24.7%	9,439	42.7%	7,706	44.6%	1,801	35.1%	1,801	46.0%
Total	10,138	100.0%	22,093	100.0%	17,290	100.0%	5,129	100.0%	3,911	100.0%

* Government grant of $1,084,000, $922,000 and $2,786,000 was granted during the years ended 31 December 2011, 2012 and 2013 respectively to subsidise certain environmental water and related services projects of the Target Group in the PRC, of which the entitlement was unconditional and under the discretion of the relevant authorities. Government grant of $1,204,000 (1H2013: Nil (unaudited)) was granted during the 1H2014 to subsidise certain environmental water and related services projects of the Target Group in the PRC, of which the entitlement was unconditional and under the discretion of the relevant authorities.

The Target Group has arranged a high interest rate loan receivable from 2012 to 2014 and the Target Group received interest income from CEIL Group companies in 2012, therefore resulted in increases in interest income in 2012. The Target Group strove to obtain more government grants. Others mainly represented the rental income, consultancy fee income and other tax refund. In 2012, the Target Group has received other tax refund of HK$6.3 million.

Other loss primarily consists of losses arising from sale of property, plant and equipment.

The following table sets out a breakdown of the Target Group's other operating expenses for the years and periods indicated:

	Year ended December 31			Six months ended June 30	
	2011	2012	2013	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net loss on sale of property, plant and equipment	349	12	84	51	148

There was no material sale of property, plant and equipment during FY2011, FY2012, FY 2013 and 1H2014.

General and administrative expenses

General and administrative expenses primarily consist of: (i) salaries, welfare and other staff benefits; (ii) depreciation of property, plant and equipment for office use and amortization of lease prepayment relating to land use rights and the Target Group's wastewater treatment plants operating rights; (iii) office expenses; (iv) marketing expenses; (v) professional fees and expenses; (vi) environmental compliance costs; (vii) exchange gains or losses; and (viii) other administrative expenses.

General and administrative expenses increased mainly due to expansion of environmental water business, inflation and RMB appreciation.

Finance costs

Finance costs primarily consist of interest expenses on the Target Group's bank borrowings. For FY2011, FY2012, FY2013 and 1H2014, the Target Group incurred finance costs of HK$106.4 million, HK$90.7 million, HK$78.8 million and HK$34.7 million, respectively.

Several projects commenced operations for certain years and the project loans were partially repaid. Therefore, the interest expenses decreased during the year/period.

Income tax

The Target Group's income tax represents enterprise income tax expenses, withholding tax expenses deferred on undistributed profits to non-PRC residents by the Target Group's PRC subsidiaries, and tax effect of temporary differences on revenue recognition.

Certain projects' tax holidays have been ended and therefore result in an increase in tax.

5.2 Results of Operations

The following table sets out selected data from the Target Group's consolidated statements of income for the years presented, which have been derived from, and should be read in conjunction with, the Target Group's accountants' report included as Appendix H titled "Audited Consolidated Financial Statements of China Everbright Water Investments Limited and its Subsidiaries for the Financial Years Ended 31 December 2011, 2012 and 2013" to this Circular:

	Year ended December 31			Six months ended June 30	
	2011	**2012**	**2013**	**2013**	**2014**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Turnover	854,532	1,391,027	1,290,740	574,407	505,837
Direct costs and operating expenses	(399,497)	(906,305)	(761,478)	(317,564)	(196,694)
Gross profit	455,035	484,722	529,262	256,843	309,143
Other revenue	10,138	22,093	17,290	5,129	3,911
Other loss	(349)	(12)	(84)	(51)	(148)
Administrative expenses	(55,438)	(49,740)	(65,714)	(33,399)	(30,922)
Profit from operations	409,386	457,063	480,754	228,522	281,984
Finance costs	(106,357)	(90,682)	(78,759)	(38,323)	(34,738)
Profit before taxation	303,029	366,381	401,995	190,199	247,246
Income tax	(72,228)	(98,149)	(111,553)	(56,488)	(69,056)
Profit for the year	230,801	268,232	290,442	133,711	178,190
Attributable to:					
Equity shareholders of CEWIL	203,026	246,676	266,486	125,644	165,999
Non-controlling interests	27,775	21,556	23,956	8,067	12,191

5.3 Review of Historical Operating Results

1H2014 compared to 1H2013

Turnover. The Target Group's turnover decreased by 11.9% to HK$505.8 million for 1H2014 from HK$574.4million for 1H2013. The Target Group's turnover decreased primarily due to the decrease in turnover from construction services.

Cost of sales. The Target Group's total cost of sales decreased by 38.1% to HK$196.7 million for 1H2014 from HK$317.6 million for 1H2013, primarily due to the decrease in the costs relating to construction services.

Gross profit and gross profit margin. The Target Group's gross profit increased by 20.4% to HK$309.1 million for 1H2014 from HK$256.8 million for 1H2013, primarily as a result of the factors described above.

The Target Group's overall gross profit margin increased to 61.1% for 1H2014 from 44.7% for 1H2013.

The increase in gross profit margin was mainly because:

(i) the construction service segment contributed a smaller proportion of total revenue, while contributions from the operating service revenue and finance income increased; and

(ii) the construction service segment yields lower gross profit margins as compared to the two mentioned earlier.

Segmental Contribution

	% contribution to Total Revenue			
Segment	**1H2013**		**1H2014**	
Construction Service	199,702	34.8%	80,999	16.0%
Operation Service	242,037	42.1%	284,887	56.3%
Finance Income	132,668	23.1%	139,951	27.7%

Other revenue and other loss. The Target Group's other revenue decreased by 23.7% to HK$3.9 million for 1H2014 from HK$5.1 million for 1H2013. The Target Group's other revenue represented, amongst others, interest income generated from bank deposits and loan receivable.

The Target Group's other loss increased by 190.2% to HK$148,000 for 1H2014 from HK$51,000 for 1H2013. The Target Group's other loss primarily represented losses arising from sale of property, plant and equipment.

General and administrative expenses. The Target Group's general and administrative expenses decreased by 7.4% to HK$30.9 million in 1H2014 from HK$33.4 million for 1H2013. This was primarily due to the effective cost control.

Finance costs. The Target Group's finance costs decreased by 9.4% to HK$34.7 million for 1H2014 from HK$38.3 million for 1H2013, primarily due to the partial repayment of the Target Group's bank borrowings.

Profit before taxation. The Target Group's profit before taxation increased by 30.0% to HK$247.2 million for 1H2014 from HK$190.2 million for 1H2013, primarily due to the factors described above.

Income tax. The Target Group's income tax increased by 22.2% to HK$69.1 million for 1H2014 from HK$56.5 million for 1H2013, which was primarily due to an increase in the provision for PRC income tax as a result of the decrease in non-deductible expenses for certain subsidiaries. Accordingly, the Target Group's effective tax rate, calculated as income tax divided by profit before taxation, decreased to 27.9% for 1H2014 from 29.7% for 1H2013.

Profit for the six-month period. The Target Group's profit increased by 33.3% to HK$178.2 million for 1H2014 from HK$133.7 million for 1H2013, primarily as a result of the factors described above.

Net profit margin. The Target Group's net profit margin increased to 35.2% for 1H2014 from 23.3% for 1H2013. Such increase was mainly attributable to the decrease in cost of sales.

FY2013 Compared to FY2012

Turnover. The Target Group's turnover decreased by 7.2% to HK$1,290.7 million in FY2013 from HK$1,391.0 million in FY2012. The Target Group's turnover decreased primarily due to a decrease in turnover generated from construction services, partially offset by an increase in turnover generated from operation services and finance income.

Cost of sales. The Target Group's total cost of sales decreased by 16.0% to HK$761.5 million in FY2013 from HK$906.3 million in FY2012, primarily due to the decrease in the costs relating to construction services and effective cost reduction in operating projects.

Gross profit and gross profit margin. The Target Group's gross profit increased by 9.2% to HK$529.3 million in FY2013 from HK$484.7 million in FY2012, as a result of the factors described above.

The Target Group's overall gross profit margin increased to 41.0% in FY2013 from 34.8% in FY2012, primarily due to a decrease in the percentage of turnover attributable to construction services in FY2013, as construction services in general have a lower gross profit margin compared to wastewater treatment services.

Other revenue and other loss. The Target Group's other revenue decreased by 21.7% to HK$17.3 million in FY2013 from HK$22.1 million in FY2012. The higher amount of other revenue in FY2012 was primarily due to other tax refund recognized in that year.

The Target Group's other loss increased by 600.0% to HK$84,000 for FY2013 from HK$12,000 for FY2012. The higher amount of other loss in FY2013 was primarily due to increase in loss on sale of property, plant and equipment.

General and administrative expenses. The Target Group's general and administrative expenses increased by 32.1% to HK$65.7 million in FY2013 from HK$49.7 million in FY2012, primarily due to expansion of environmental water business, inflation and RMB appreciation.

Finance costs. The Target Group's finance costs decreased by 13.1% to HK$78.8 million for FY2013 from HK$90.7 million for FY2012, primarily due to a decrease in finance costs as a result of decreased bank borrowings in FY2013.

Profit before taxation. The Target Group's profit before taxation increased by 9.7% to HK$402.0 million in FY2013 from HK$366.4 million for FY2012, primarily due to the factors described above.

Income tax. The Target Group's income tax increased by 13.7% to HK$111.6 million for FY2013 from HK$98.1 million for FY2012, primarily due to an increase in the provision for PRC income tax as a result of expiry of tax holiday for certain subsidiaries. The Target Group's effective tax rate, calculated as income tax divided by profit before taxation, increased to 27.7% in FY2013 from 26.8% in FY2012.

Profit for the year. The Target Group's profit for the year increased by 8.3% to HK$290.4 million in FY2013 from HK$268.2 million in FY2012, primarily as a result of the factors described above.

Net profit margin. The Target Group's net profit margin increased to 22.5% in FY2013 from 19.3% in FY2012. Such increase was mainly attributable to a decrease in operating expenses and finance costs in FY2013 compared with that in FY2012.

FY2012 Compared to FY2011

Turnover. The Target Group's turnover increased by 62.8% to HK$1,391.0 million in FY2012 from HK$854.5 million in FY2011. The Target Group's turnover increase was primarily attributable to the increase in turnover generated from construction and operation services.

Cost of sales. The Target Group's total cost of sales increased by 126.9% to HK$906.3 million in FY2012 from HK$399.5 million in FY2011, primarily due to the increase in the costs relating to construction services.

Gross profit and gross profit margin. The Target Group's gross profit increased by 6.5% to HK$484.7 million in FY2012 from HK$455.0 million in FY2011, as a result of the factors described above.

The Target Group's overall gross profit margin decreased to 34.8% in FY2012 from 53.2% in the FY2011, primarily due to the increase in the percentage of turnover attributable to construction services for FY2012, as the Target Group's construction services in general have a lower gross profit margin compared to the Target Group's operation services.

Other revenue and other loss. The Target Group's other revenue increased by 117.9% to HK$22.1 million in FY2012 from HK$10.1 million in FY2011, partially due to increase in interest income.

The Target Group's other loss decreased by 96.6% to HK$12,000 for FY2012 from HK$349,000 for FY2011.

General and administrative expenses. The Target Group's general and administrative expenses decreased by 10.3% to HK$49.7 million in FY2012 from HK$55.4 million in FY2011, primarily due to effective cost reduction.

Finance costs. The Target Group's finance costs decreased by 14.7% to HK$90.7 million for FY2012 from HK$106.4 million for FY2011, primarily due to the decrease in finance costs as a result of decreased bank borrowings in FY2012.

Profit before taxation. The Target Group's profit before taxation increased by 20.9 % to HK$366.4 million in FY2012 from HK$303.0 million for FY2011, primarily due to factors described above.

Income tax. The Target Group's income tax increased by 35.9% to HK$98.1 million for FY2012 from HK$72.2 million for FY2011, which was in line with the increase in turnover from construction and operation services. The Target Group's effective tax rate, calculated as income tax divided by profit before taxation, increased to 26.8% in FY2012 from 23.8% in FY2011, primarily due to an increase in the provision for PRC income tax as a result of expiry of tax holiday for certain subsidiaries.

Profit for the year. The Target Group's profit for the year increased by 16.2% to HK$268.2 million in FY2012 from HK$230.8 million in FY2011, primarily as a result of the factors described above.

Net profit margin. The Target Group's net profit margin decreased to 19.3% in FY2012 from 27.0% in FY2011. Such decrease was attributable to an increase in the percentage of turnover attributable to construction services as mentioned above and a substantial increase in operating expenses in FY2012 compared with that in FY2011.

5.4 Review of Financial Position

The following table sets out the Target Group's assets and liabilities as of the dates indicated:

	As of December 31			As of June 30
	2011	**2012**	**2013**	**2014**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Current assets	1,000,938	801,452	1,021,743	1,047,587
Non-current assets	3,489,014	4,034,152	4,368,743	4,111,388
Total assets	**4,489,952**	**4,835,604**	**5,390,486**	**5,158,975**
Current liabilities	559,054	786,173	920,041	607,474
Non-current liabilities	2,516,176	2,431,626	2,479,050	1,254,192
Total liabilities	3,075,230	3,217,799	3,399,091	1,861,666
Total equity attributable to equity shareholder of CEWIL	1,037,334	1,308,190	1,648,887	2,951,029
Non-controlling interests	377,388	309,615	342,508	346,280
Total equity	1,414,722	1,617,805	1,991,395	3,297,309

Current assets

As of December 31, 2011, 2012, 2013 and June 30, 2014, the current assets represented 22.3%, 16.6%, 19.0% and 20.3% of the Target Group's total assets, respectively. The key components of the Target Group's current assets include debtors, other receivables, deposits and prepayments, gross amounts due from customers for contract work, pledged bank deposits and cash and cash equivalents. The Target Group's current assets decreased by 19.9% to HK$801.5 million as of December 31, 2012 from HK$1,000.9 million as of December 31, 2011, primarily due to more cash utilized in the construction of projects. The Target Group's current assets increased by 27.5% to HK$1,021.7 million as of December 31, 2013 from HK$801.5 million as of December 31, 2012, primarily due to increase in debtors, other receivables, deposits and prepayments, gross amounts due from customers for contract work and cash and cash equivalents.

The small increase in the Target Group's current assets from HK$1,021.7 million as of December 31, 2013 to HK$1,047.6 million as of June, 30 2014 by 2.5% was primarily caused by operating results during the period.

Non-current assets

As of December 31, 2011, 2012, 2013 and June 30, 2014, the non-current assets represented 77.7%, 83.4%, 81.0% and 79.7% of the Target Group's total assets, respectively. The key components of the Target Group's non-current assets include fixed assets, intangible assets, other receivables and gross amounts due from customers for contract work. The Target Group's non-current assets increased by 15.6% to HK$4,034.2 million as of December 31, 2012 from HK$3,489.0 million as of December 31, 2011, primarily due to construction of new projects. The Target Group's non-current assets increased by 8.3% to HK$4,368.7 million as of December 31, 2013 from HK$4,034.2 million as of December 31, 2012, primarily due to construction of new projects.

The decrease in the Target Group's non-current assets from HK$4,368.7 million as of 31 December 2013 to HK$4,111.4 million as of 30 June 2014 by 5.9% was primarily caused by decrease in other receivables and gross amounts due from customers for contract work after settlement received during the period.

Current liabilities

As of December 31, 2011, 2012, 2013 and June 30, 2014, the current liabilities represented 18.2%, 24.4%, 27.1% and 32.6% of the Target Group's total liabilities, respectively. The key components of the Target Group's current liabilities include bank loans and creditors, other payables and accrued expenses. The Target Group's current liabilities increased by 40.6% to HK$786.2 million as of December 31, 2012 from HK$559.1 million as of December 31, 2011, primarily due to increase in construction payables in relation to new project construction. The Target Group's current liabilities increased by 17.0% to HK$920.0 million as of December 31, 2013 from HK$786.2 million as of December 31, 2012, primarily due to increase in construction payables in relation to new project construction.

The decrease in the Target Group's current liabilities from HK$920.0 million as of December 31, 2013 to HK$607.5 million as of June 30, 2014 by 34.0% was primarily caused by decrease in construction payables after settlement.

Non-current liabilities

As of December 31, 2011, 2012, 2013 and June 30, 2014, the non-current liabilities represented 81.8%, 75.6%, 72.9% and 67.4% of the Target Group's total liabilities, respectively. The key components of the Target Group's non-current liabilities include bank loans, other payables and deferred tax liabilities. The Target Group's non-current liabilities decreased by 3.4% to HK$2,431.6 million as of December 31, 2012 from HK$2,516.2 million as of December 31, 2011, primarily due to repayment of bank loans. The Target Group's non-current liabilities increased by 2.0% to HK$2,479.1 million as of December 31, 2013 from HK$2,431.6 million as of December 31, 2012, primarily due to increase in amounts due to holding companies for project companies' capital.

The decrease in the Target Group's non-current liabilities from HK$2,479.1 million as of December 31, 2013 to HK$1,254.2 million as of June 30, 2014 by 49.4% was primarily caused by capitalization of shareholders loan of HK$1,210.1 million.

Total equity attributable to equity shareholders

As of December 31, 2011, 2012, 2013 and June 30, 2014, the total equity attributable to equity shareholders represented 73.3%, 80.9%, 82.8% and 89.5% of the Target Group's total equity, respectively. The Target Group's total equity attributable to equity shareholders increased by 26.1% to HK$1,308.2 million as of December 31, 2012 from HK$1,037.3 million as of December 31, 2011, primarily due to increase in retained profits and exchange reserve. The Target Group's total equity attributable to equity shareholders increased by 26.0% to HK$1,648.9 million as of December 31, 2013 from HK$1,308.2 million as of December 31, 2012, primarily due to increase in retained profits and exchange reserve.

The increase in the Target Group's total equity attributable to equity shareholders from HK$1,648.9 million as of December 31, 2013 to HK$2,951.0 million as of June 30, 2014 by 79.0% was primarily caused by capitalization of shareholders loan as explained above.

Non-controlling interests

As of December 31, 2011, 2012, 2013 and June 30, 2014, the non-controlling interests represented 26.7%, 19.1%, 17.2% and 10.5% of the Target Group's total equity, respectively. The Target Group's non-controlling interests decreased by 18.0% to HK$309.6 million as of December 31, 2012 from HK$377.4 million as of December 31, 2011, primarily due to dividend paid and the capital refund to non-controlling shareholders, offsetting the share of profits and increase in exchange reserve movement by the non-controlling shareholders. The Target Group's non-controlling interests increased by 10.6% to HK$342.5 million as of December 31, 2013 from HK$309.6 million as of December 31, 2012, primarily due to share of profits and increase in exchange reserve movement by the non-controlling shareholders.

The increase in the Target Group's non-controlling interests from HK$342.5 million as of December 31, 2013 to HK$346.3 million as of June 30, 2014 by 1.1% was primarily caused by share of profits and decrease in exchange reserve movement by the non-controlling shareholders.

5.5 Liquidity and Capital Resources

The Target Group's principal liquidity and capital requirements primarily relate to investments in the Target Group's projects, acquisition of land use rights, construction of the Target Group's wastewater treatment and industrial water supply facilities, purchases of equipment, costs and expenses related to the operation and maintenance of the Target Group's facilities, as well as investments in the Target Group's research and development capabilities. The Target Group has historically met its capital expenditures, working capital and other liquidity requirements principally from cash generated from its operations, bank borrowings and capital contributions from shareholders. Going forward, the Target Group expects to fund its foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from the Target Group's operations and bank borrowings.

	Year ended December 31			Six months ended June 30	
	2011	2012	2013	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net cash generated from / (used in) operating activities	777,731	46,613	250,272	11,915	(24,342)
Net cash generated from / (used in) investing activities	(140,007)	(148,058)	(52,423)	(1,848)	48,193
Net cash generated from / (used in) financing activities	(544,982)	(181,411)	(126,289)	62,971	51,452
Net increase / (decrease) in cash and cash equivalents	92,742	(282,856)	71,560	73,038	75,303

Net cash generated from/(used in) operating activities

Net cash used in operating activities for 1H2014 was HK$24.3 million. This amount primarily reflected (i) profit before taxation of HK$247.2 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$80.9 million; (iii) decrease in gross amounts due from customers for contract work of HK$35.5 million; and (iv) substantial decrease in creditors, other payables and accrued expenses of HK$241.6 million.

Net cash generated from operating activities for 1H2013 was HK$11.9 million. This amount primarily reflected (i) profit before taxation of HK$190.2 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$54.2 million; (iii) increase in gross amounts due from customers for contract work of HK$133.0 million; and (iv) decrease in creditors, other payables and accrued expenses of HK$5.2 million.

Net cash generated from operating activities in FY2013 was HK$250.3 million. This amount primarily reflected (i) profit before taxation of HK$402.0 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$130.5 million; (iii) increase in gross amounts due from customers from contract work of HK$210.7 million; and (iv) increase in creditors, other payables and accrued expenses of HK$149.6 million.

Net cash generated from operating activities in FY2012 was HK$46.6 million. This amount primarily reflected (i) profit before taxation of HK$366.4 million; (ii) increase in debtors, other receivables, deposits and prepayments of HK$125.0 million; (iii) increase in gross amounts due from customers from contract work of HK$375.0 million; and (iv) increase in creditors, other payables and accrued expenses of HK$123.8 million.

Net cash generated from operating activities in FY2011 was HK$777.7 million. This amount primarily reflected (i) profit before taxation of HK$303.0 million; (ii) decrease in debtors, other receivables, deposits and prepayments of HK$595.5 million; and (iii) decrease in gross amounts due from customers from contract work of HK$202.8 million.

Net cash generated from/(used in) investing activities

Net cash generated from investing activities for 1H2014 was HK$48.2 million, primarily as a result of payment from purchase of property, plant and equipment of HK$1.7 million and repayment from loan receivables of HK$49.9 million.

Net cash used in investing activities for 1H2013 was HK$1.8 million, primarily as a result of payment from purchase of property, plant and equipment of HK$3.9 million and decrease in amounts due from intermediate holding company of HK$2.1 million.

Net cash used in investing activities in FY2013 was HK$52.4 million, primarily as a result of payment from purchase of property, plant and equipment of HK$12.3 million and increase in amounts due from intermediate holding company of HK$40.1 million.

Net cash used in investing activities in FY2012 was HK$148.1 million, primarily as a result of (i) payment from purchase of property, plant and equipment of HK$88.3 million; (ii) payment for additions of intangible assets of HK$82.4 million; (iii) decrease in amounts due from intermediate holding company of HK$71.8 million; and (iv) increase in loan receivable of HK$49.2 million.

Net cash used in investing activities in FY2011 was HK$140.0 million, primarily as a result of (i) payment from purchase of property, plant and equipment of HK$52.1 million; (ii) payment for additions of interest in leasehold land held for own use under operating lease of HK$7.8 million;(iii) payment for additions of intangible assets of HK$24.4 million; and (iv) increase in amounts due from intermediate holding company of HK$55.8 million.

Net cash generated from/(used in) financing activities

Net cash generated from financing activities for 1H2014 was HK$51.5 million, this amount primarily reflected (i) proceeds from new bank loans of HK$110.2 million; (ii) repayment of bank loans of HK$124.7 million; (iii) increase in amounts due to fellow subsidiaries of HK$134.5 million; (iv) decrease in amounts due to immediate holding company of HK$200.5 million; (v) increase in amounts due to intermediate holding companies of HK$177.3 million; (vi) increase in pledged bank deposits of HK$10.6 million; and (vii) interest paid of HK$34.7 million.

Net cash generated from financing activities for 1H2013 was HK$63.0 million, this amount primarily reflected (i) proceeds from new bank loans of HK$7.9 million; (ii) repayment of bank loans of HK$160.3 million; (iii) increase in amounts due to fellow subsidiaries of HK$104.6 million; (iv) increase in amounts due to immediate holding company of HK$128.9 million; (v) increase in amounts due to intermediate holding companies of HK$0.7 million; (vi) decrease in pledged bank deposits of HK$19.4 million; and (vii) interest paid of HK$38.3 million.

Net cash used in financing activities in FY2013 was HK$126.3 million, primarily as a result of (i) proceeds from new bank loans of HK$85.9 million; (ii) repayment of bank loans of HK$313.6 million; (iii) increase in amounts due to fellow subsidiaries of HK$2.4 million; (iv) increase in amounts due to immediate holding company of HK$167.5 million; (v) increase in amounts due to intermediate holding companies of HK$6.2 million; (vi) decrease in pledged bank deposits of HK$4.1 million; and (vii) interest paid of HK$78.8 million.

Net cash used in financing activities in FY2012 was HK$181.4 million, primarily as a result of (i) proceeds from new bank loans of HK$113.8 million; (ii) repayment of bank loans of HK$321.0 million; (iii) repayment of other loans of HK$55.3 million; (iv) increase in amounts due to fellow subsidiaries of HK$95.5 million; (v) increase in amounts due to immediate holding company of HK$147.9 million; (vi) decrease in amounts due to intermediate holding companies of HK$43.4 million; (vii) capital refunded to non-controlling shareholders of HK$73.9 million; (viii) decrease in pledged bank deposits of HK$60.5 million; (ix) interest paid of HK$90.7 million; and (x) dividend paid to non-controlling shareholders of HK$14.9 million.

Net cash used in financing activities in FY2011 was HK$545.0 million, primarily as a result of (i) proceeds from new bank loans of HK$62.2 million; (ii) repayment of bank loans of HK$515.3 million; (iii) increase in amounts due to fellow subsidiaries of HK$13.7 million; (iv) increase in amounts due to immediate holding company of HK$92.4 million; (v) decrease in amounts due to intermediate holding companies of HK$0.3 million; (vi) increase in pledged bank deposits of HK$91.4 million; and (vii) interest paid of HK$106.4 million.

5.6 Working Capital

Taking into account the Target Group's cash and cash equivalents on hand, the net cash flow from the Target Group's operating activities, the Target Group's available borrowing facilities (including the committed renewal of these facilities upon their expiration), the Target Group's Directors are satisfied that the Target Group has sufficient working capital for at least the next 12 months from the date of this Circular.

5.7 Net Current Assets

The following table sets out the Target Group's current assets and liabilities as of the dates indicated:

	As of December 31			As of June 30
	2011	2012	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Inventories	8,476	8,174	7,162	7,601
Debtors, other receivables, deposits and prepayments	267,646	322,762	422,193	408,134
Gross amounts due from customers for contract work	170,048	251,326	298,234	262,831
Tax recoverable	—	2,349	3,741	—
Pledged bank deposits	106,333	46,289	43,468	53,008
Cash and cash equivalents	448,435	170,552	246,945	316,013
Current assets	**1,000,938**	**801,452**	**1,021,743**	**1,047,587**
Bank loans	300,120	291,898	277,771	268,241
Creditors, other payables and accrued expenses	252,586	476,369	619,999	317,877
Current taxation	6,348	17,906	22,271	21,356
Current liabilities	**559,054**	**786,173**	**920,041**	**607,474**
Net current assets	**441,884**	**15,279**	**101,702**	**440,113**

As of December 31, 2013, the Target Group had net current assets of HK$101.7 million. The key components of the Target Group's current assets as of such date included mainly debtors, other receivables, deposits and prepayments. The key components of the Target Group's current liabilities as of such date included mainly bank loans and creditors, other payables and accrued expenses. The Target Group's net current assets increased to HK$101.7 million as of December 31, 2013 from HK$15.3 million as of December 31, 2012, primarily due to a significant increase in debtors, other receivables, deposits and prepayments.

As of June 30, 2014, the Target Group had net current assets of HK$440.1 million. The key components of the Target Group's current assets as of such date included mainly debtors, other receivables, deposits and prepayments, gross amounts due from customers for contract work, pledged bank deposits and cash and cash equivalents. The key components of the Target Group's current liabilities as of such date included mainly bank loans and creditors, other payables and accrued expenses. The Target Group's net current assets increased to HK$440.1 million as of June 30, 2014 from HK$101.7 million as of December 31, 2013 primarily due to the decrease in current liabilities.

Debtors, other receivables, deposits and prepayments

Debtors, other receivables, deposits and prepayments consist of debtors, loan receivables, other receivables, deposits and prepayments and amounts due from intermediate holding company and fellow subsidiaries.

The following table sets forth the Target Group's debtors, other receivables, deposits and prepayments as of the dates indicated:

	As of December 31			As of June 30
	2011	**2012**	**2013**	**2014**
	HK$ '000	**HK$ '000**	**HK$'000**	**HK$ '000**
Debtors	79,388	132,703	143,238	168,744
Loan receivable	—	49,744	51,156	—
Other receivables, deposits and prepayments	1,684,478	1,775,138	1,948,929	1,951,589
Amounts due from intermediate holding company	202,014	130,194	170,520	—
Amounts due from fellow subsidiaries	5	9	116	—
Less: Non-current portion				
– other receivables and deposits	(1,496,225)	(1,585,088)	(1,721,439)	(1,712,199)
– loan receivable	—	(49,744)	—	—
– amounts due from intermediate holding company	(202,014)	(130,194)	(170,327)	—
Current portion	267,646	322,762	422,193	408,134

The increase in the Target Group's debtors, other receivables, deposits and prepayments to HK$422.2 million as of December 31, 2013 from HK$322.8 million as of December 31, 2012 was primarily due to reclassification of loan receivable from non-current assets to current assets in 2013 and increase in other receivables, deposits and prepayments.

The increase in the Target Group's debtors, other receivables, deposits and prepayments to HK$322.8 million as of December 31, 2012 from HK$267.6 million as of December 31, 2011 was primarily due to increase in debtors as a result of operation expansion.

The decrease in the Target Group's debtors, other receivables, deposits and prepayments to HK$408.1 million as of June 30, 2014 from HK$422.2 million as of December 31, 2013 was primarily due to settlement of loan receivables.

The Target Group's trade receivables turnover days were 67 days, 95 days, 93 days and 108 days in FY2011, FY2012, FY2013 and 1H2014, respectively. The trade receivables, turnover days were calculated as the ending trade receivable balances for the year, divided by turnover from operating services for the year, multiplied by the number of day for the year/period. The increase in the Target Group's trade receivables turnover days from 67 days in 2011 to 95 days in 2012 was primarily due to extended settlement in Qingdao debtors with mutual consent by all parties as a result of negotiation in shareholdings' changes in process. The increase in the Target Group's trade receivables turnover days was increased from 93 days in 2013 to 108 days for the six months ended June 30, 2014 as the local governments usually make lump-sum settlement in the 4th quarter of the year.

The following table sets forth the aging analysis of the Target Group's debtors, other receivables, deposits and prepayments as of the dates indicated:

	As of December 31			As of June 30
	2011	**2012**	**2013**	**2014**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Current	71,181	81,724	82,421	83,112
Within 1 month past due	2,709	22,818	9,755	33,777
More than 1 month but within 3 months past due	5,095	12,185	11,711	10,701
More than 3 months but within 6 months past due	403	6,819	7,678	9,578
More than 6 months but within 12 months past due	—	9,157	9,386	15,665
More than 12 months past due	—	—	22,287	15,911
Amounts past due	**8,207**	**50,979**	**60,817**	**85,632**
	79,388	**132,703**	**143,238**	**168,744**

Increase in debtor aging is due to the reason explained above. In addition, in respect of the amounts more than 12 months past due, the increase in such amounts in 2013 compared to 2012 is due to the negotiation of new water tariffs of a water project with the municipal government which slowed down repayment.

Gross amounts due from Customers for Contract Work

	As of December 31			As of June 30
	2011	**2012**	**2013**	**2014**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Contract costs incurred plus recognised profits less anticipated losses	2,358,173	2,956,479	3,498,168	3,401,578
Less: Progress billings	(577,836)	(781,480)	(1,050,753)	(1,051,627)
Net contract work	1,780,337	2,174,999	2,447,415	2,349,951
Representing:				
Gross amounts due from customers for contract work				
– Non-current	1,610,289	1,923,673	2,149,181	2,087,120
– Current	170,048	251,326	298,234	262,831

Gross amounts due from customers for contract work represent the net amount of costs incurred plus recognized profits less anticipated losses and progress billings in respect of construction contracts in progress. The balance increased mainly because there were more construction services and upgrade services performed on BOT projects and TOT projects, respectively.

As of December 31, 2011, 2012, 2013 and June 30, 2014, the gross amounts due from customers for contract work that are classified as current assets represented 17.0%, 31.4%, 29.2% and 25.1% of the Target Group's total current assets, respectively. The gross amounts due from customers for contract work that are classified as current assets increased by 47.8% to HK$251.3 million as of December 31, 2012 from HK$170.0 million as of December 31, 2011, primarily due to construction of new projects. The gross amounts due from customers for contract work that are classified as current assets posted an increase of 18.7% to HK$298.2 million as of December 31, 2013 from HK$251.3 million as of December 31, 2012. The gross amounts due from customers for contract work that are classified as current assets posted a decrease of 11.9% to HK$262.8 million as of June 30, 2014 from HK$298.2 million as of December 31, 2013.

As of December 31, 2011, 2012, 2013 and June 30, 2014, the gross amounts due from customers for contract work that are classified as non-current assets represented 46.2%, 47.7%, 49.2% and 50.8% of the Target Group's total non-current assets, respectively. The gross amounts due from customers for contract work that are classified as non-current assets increased by 19.5% to HK$1,923.7 million as of December 31, 2012 from HK$1,610.3 million as of December 31, 2011, primarily due to construction of new projects. Gross amounts due from customers for contract work that are classified as non-current assets increased by 11.7% to HK$2,149.2 million as of December 31, 2013 compared from HK$1,923.7 million as of December 31, 2012. The gross amounts due from customers for contract work that are classified as non-current assets posted a slight decrease of 2.9% to HK$2,087.1 million as of June 30, 2014 from HK$2,149.2 million as of December 31, 2013.

Inventories

The Target Group's inventories, mainly spare parts and consumables used in the repairs and maintenance, are carried at cost less provision for obsolescence (if any). Cost is calculated using the weighted average cost formula. When inventories are consumed, the carrying amount of those inventories is recognized as an expense in profit or loss.

The following table sets forth information about the Target Group's inventories as of the dates indicated:

	As of December 31			As of June 30
	2011	2012	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Raw materials and operating supplies	8,476	8,174	7,162	7,601

Creditors, other payables and accrued expenses

Trade and other payables consist of trade payables, payables to related parties and other payables. Trade payables primarily relate to the Target Group's purchases of raw materials from suppliers for use during wastewater treatment and industrial water supply services. Other payables primarily include construction contract payables, payroll payables, accruals and other tax payables.

The following table sets out the Target Group's trade and other payables as of the dates indicated:

	As of December 31			As of June 30
	2011	2012	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Trade creditors				
– third parties	94,918	198,056	201,237	145,671
– fellow subsidiaries	33,808	76,185	179,765	22,437
Other payables and accrued expenses	55,543	66,262	74,270	45,510
Amounts due to intermediate holding company	44,547	30,165	6,548	183,814
Amounts due to immediate holding company	1,265,467	1,413,386	1,580,841	—
Amounts due to fellow subsidiaries	67,434	106,008	164,727	283,583
Total	**1,561,717**	**1,890,062**	**2,207,388**	**681,015**
Less: Non-current portion				
– amounts due to intermediate holding company	(43,664)	(307)	(6,548)	(80,930)
– amounts due to immediate holding company	(1,265,467)	(1,413,386)	(1,580,841)	—
– amounts due to fellow subsidiaries	—	—	—	(282,208)
Current portion	**252,586**	**476,369**	**619,999**	**317,877**

The increase in the Target Group's creditors, other payables and accrued expenses to HK$620.0 million as of December 31, 2013 from HK$476.4 million as of December 31, 2012 was primarily due to increase in construction payables in relation to new project construction.

The increase in the Target Group's creditors, other payables and accrued expenses to HK$476.4 million as of December 31, 2012 from HK$252.6 million as of December 31, 2011 was primarily due to increase in construction payables in relation to new project construction.

The decrease in the Target Group's creditors, other payables and accrued expenses to HK$317.9 million as of June 30, 2014 from HK$620.0 million as of December 31, 2013 was primarily due to decrease in construction payables after settlement.

The Target Group's trade payables turnover days were 118 days, 110 days, 183 days and 156 days in FY2011, FY2012, FY2013 and 1H2014, respectively. The trade payables turnover days were calculated as the ending trade payables balances for the year, divided by cost of sales for the year, multiplied by the number of day for the year/period. The increase in the Target Group's trade payables turnover days in 2012 from 110 days to 183 days in FY2013 was primarily due to increase in construction payables, which were with a longer credit period. The decrease in the Target Group's trade payables turnover days in 2013 from 183 days to 156 days for 1H2014 was primarily due to decrease in construction payables after settlement.

5.8 Indebtedness

Loans and Borrowings

The following table sets out the Target Group's outstanding loans and borrowings as of the dates indicated:

	As of December 31			As of June 30
	2011	2012	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Within 1 year or on demand	300,120	291,898	277,771	268,241
After 1 year but within 2 years	251,535	272,591	231,059	196,947
After 2 years but within 5 years	590,923	451,843	339,752	281,924
After 5 years	117,782	48,376	15,347	80,623
	1,260,360	**1,064,708**	**863,929**	**827,735**
– secured	953,967	812,382	660,968	619,445
– unsecured	306,393	252,326	202,961	208,290
	1,260,360	**1,064,708**	**863,929**	**827,735**

The Target Group's gearing ratio, as calculated by dividing the Target Group's total borrowings by the Target Group's total assets, was 28.1%, 22.0%, 16.0% and 16.0% as of December 31, 2011, 2012, 2013 and June 30, 2014, respectively. The Target Group's gearing ratio decreased from 28.1% as of December 31, 2011 to 22.0% as of December 31, 2012, primarily due to repayment of bank loans. The Target Group's gearing ratio decreased from 22.0% as of December 31, 2012 to 16.0% as of December 31, 2013, primarily due to repayment of bank loans. The Target Group's gearing ratio remained unchanged from 16.0% as of December 31, 2013 to 16.0% as of June 30, 2014.

The Target Group's Directors have confirmed that there has been no other material adverse change in indebtedness since June 30, 2014.

During FY2011, FY2012, FY2013 and 1H2014, except as disclosed above in "Loans and Borrowings", the Target Group did not have any outstanding loan capital issued or agree to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

5.9 Capital Expenditures

Historical Capital Expenditures

The Target Group's major capital expenditures consist primarily of expenditures to acquire land use rights, construct wastewater treatment facilities and purchase property, plant and equipment.

For FY2011, FY2012, FY2013 and 1H2014, the Target Group's expenditures on acquisition of property, plant and equipment and interest in leasehold land held for own use under operating leases amounted to HK$59.9 million, HK$88.3 million, HK$12.3 million and HK$1.7 million, respectively.

These capital expenditures were funded by bank borrowings, funds generated from the Target Group's operating activities and capital contributions from the Target Group's shareholders.

Planned Capital Expenditures

The Target Group's actual capital expenditures may differ from the amounts set out above due to various factors, including the Target Group's future cash flows, results of operations and financial condition, changes in China and the world economy, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in China and other factors. The Target Group may also pursue expansion through internal development, acquisitions of existing operations, investments in other businesses, or joint ventures with third parties, which may cause the Target Group's capital expenditures to increase.

Divestments

During FY2011, the Target Group had terminated the Jiangyin Sewage Piping Network Transfer Agreement and received refunds of RMB61.3 million in FY2010 and RMB500.0 million in FY2011.

Capital Commitments

The Target Group had no outstanding purchase commitments (as at 31 December 2013: HK$33.5 million) in connection with the Target Group's construction contracts not provided for in the financial statements as at 30 June 2014.

The Target Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of these leases includes contingent rentals.

Off-Balance Sheet Commitments and Arrangement

Non-adjusting events after the balance sheet date

On 24 July 2014, CEWIL entered into agreements with Veolia Water S.A., the non-controlling shareholder of EB-VW HK Holding Company Limited (a non-wholly owned subsidiary of CEWIL) and the controlling shareholder of Qingdao Veolia Water Operating Company Limited, an associate of CEWIL, pursuant to which Veolia Water S.A. agreed to sell and CEWIL agreed to purchase the 40% equity interest in EB-VW HK Holding Company Limited and the shareholder's loan and 78% equity interest in Qingdao Veolia Water Operating Company Limited at considerations of RMB90,200,000 and RMB1,800,000 respectively. Upon completion of the transactions, EB-VW HK Holding Company Limited became a wholly-owned subsidiary of CEWIL whereas Qingdao Veolia Water Operating Company Limited became a non-wholly owned subsidiary of CEWIL. EB-VW HK Holding Company Limited was also renamed to Everbright Water (Qingdao) Holdings Limited and Qingdao Veolia Water Operating Company Limited was also renamed to Qingdao Everbright Water Company Limited following the transactions.

5.10 Foreign Exchange Exposure

Majority of the Target Group's transactions are denominated in the functional currency of the entity to which they relate. Presently, there is no hedging policy with respect to the foreign exchange exposure. The Target Group's transactional currencies are Renminbi and Hong Kong dollars as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in Renminbi and Hong Kong dollars, the Target Group's transactional foreign exchange exposure was insignificant.

5.11 Significant Accounting Policy Changes

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for 1H2014 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018

The Target Group is in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application but is not yet in a position to state whether these amendments and new standard would have a significant impact on the Target Group's results of operations and financial position.

6. INTERESTED PERSON TRANSACTIONS

In general, transactions between the Target Group and any of its interested persons (namely, the directors, chief executive officer or controlling shareholders of CEWIL or the associates of such directors, chief executive officer or controlling shareholders) would constitute interested person transactions.

Certain terms such as "associate", "control", "controlling shareholder", "entity at risk" and "interested person" used in this section have the meanings as provided in the SGX-ST Listing Manual and in the Securities and Futures (Offers of Investment) (Shares and Debentures) Regulations 2005, unless the context specifically requires the application of the definitions in one or the other as the case may be.

In line with the rules set out in Chapter 9 of the SGX-ST Listing Manual, a transaction which value is less than S$100,000 is not taken into account for the purposes of aggregation in this section.

The following persons or companies are considered "interested persons" for the purposes of this section:

(i) the directors of CEWIL, namely Chen Xiaoping, Wang Tianyi, Wong Kam Chung, Raymond, Yang Zhiqiang and Hu Yanguo and their respective associates; and

(ii) the controlling shareholders of CEWIL, namely China Everbright Water Holdings Limited, China Everbright Environmental Protection Holdings Limited and China Everbright International Limited and their respective associates.

The following represents transactions undertaken by the Target Group and its interested persons and their respective associates within the last three financial years ended 31 December 2011, 31 December 2012 and 31 December 2013 and for the period from 1 January 2014 up to the Latest Practicable Date ("**Relevant Period**").

6.1 Past Interested Person Transactions

Details of the past transactions between the Target Group and its interested persons for the Relevant Period are set out below.

Loans by the Target Group to Interested Persons

The Target Group have in the past granted loans to its interested persons for various purposes as described below. The amounts outstanding under the loans at the end of the past three financial years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the six months ended 30 June 2014 were as follows:

		Financial year ended 31 December			
		2011 (HK$'000)	**2012 (HK$'000)**	**2013 (HK$'000)**	**1H2014 (HK$'000)**
(A)	CEIL	202,014	130,194	170,520	—
(B)	Everbright Environmental Protection (China) Limited	—	—	34	—
(C)	Everbright Environmental Protection Technological Development (Beijing) Limited	5	—	20	—
(D)	Everbright Alternative Energy (Dangshan) Co., Ltd.	—	7	9	—
(E)	Everbright Environmental Equipment Manufacturing (Changzhou) Limited	—	2	—	—
(F)	Everbright Environmental Energy (Weifang) Limited	—	—	5	—
(G)	Everbright Environmental Energy (Heze) Limited	—	—	36	—
(H)	Everbright Biomass Energy (Hanshan) Ltd.	—	—	10	—
(I)	Everbright Environmental Protection (Yancheng) Solid Waste Treatment Limited	—	—	2	—

(i) Loans to CEIL (Please refer to (A) above)

The Target Group has from time to time extended loans to CEIL for various purposes such as the funding of projects and investments and the general working capital of the CEIL Group.

For the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014, the aggregate amount of loans outstanding amounted to approximately HK$202,014,000, HK$130,194,000, HK$170,520,000 and nil respectively. The largest amount outstanding during the period under review was HK$202,014,000. All loans made to CEIL were non-interest bearing.

The loans granted by Everbright Water (Ji'nan) Holdings Limited and Everbright Water (Wuxi) Holdings Limited had no fixed repayment terms. The loan granted by Everbright Water (Ji'Nan) Ltd was repayable on demand.

As at the Latest Practicable Date, all outstanding amounts under the loans have been repaid.

(ii) Loans to Subsidiaries of CEIL (Please refer to (B) to (I) above)

The Target Group has from time to time extended loans to the subsidiaries of CEIL (including Everbright Environmental Protection (Yancheng) Solid Waste Treatment Limited, Everbright Environmental Protection (China) Limited, Everbright Environmental Protection Technological Development (Beijing) Limited, Everbright Alternative Energy (Dangshan) Co., Ltd., Everbright Environmental Equipment Manufacturing (Changzhou) Limited, Everbright Environmental Energy (Weifang) Limited, Everbright Environmental Energy (Heze) Limited, Everbright Biomass Energy (Hanshan) Ltd.) for various purposes such as the general working capital of the CEIL Group.

For the past three financial years ended 31 December 2011, 2012 and 2013, the aggregate amount of loans outstanding amounted to approximately HK$5,000, HK$9,000 and HK$116,000 respectively. The largest aggregate amount outstanding during the period under review was HK$116,000. The relevant loans were non-interest bearing and had no fixed repayment terms.

As at the Latest Practicable Date, all outstanding amounts under the loans have been repaid.

Loans by Interested Persons to the Target Group

The Target Group have in the past obtained loans from its interested persons for various purposes as described below. The amounts outstanding under the loans at the end of the past three financial years ended 31 December 2011, 31 December 2012 and 31 December 2013 and 1H2014 were as follows:

		Financial year ended 31 December			
		2011 (HK$'000)	**2012 (HK$'000)**	**2013 (HK$'000)**	**1H2014 (HK$'000)**
(A)	Everbright Environmental Protection (China) Limited	67,434	106,008	97,552	2
(B)	Everbright Environmental Protection Venture Capital (Shenzhen) Ltd.	—	—	66,503	—
(C)	Everbright Environmental Energy (Jiangyin) Ltd.	—	—	91	—
(D)	Everbright Environmental Energy (Suqian) Ltd.	—	—	6	—
(E)	Everbright Environmental Protection Engineering (Shenzhen) Ltd.	—	—	575	—

(i) Loans from Everbright Environmental Protection (China) Limited (Please refer to (A) above)

The Target Group has from time to time obtained loans from Everbright Environmental Protection (China) Limited, a wholly-owned subsidiary of CEIL, for various purposes such as the general working capital of the Target Group.

For the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014, the aggregate amount of loans outstanding amounted to approximately HK$67,434,000, HK$106,008,000, HK$97,552,000 and HK$2,000 respectively. The largest amount outstanding during the period under review was HK$106,008,000. All loans obtained were non-interest bearing and were repayable on demand, save for the loan granted to Everbright Water (Xinyi) Ltd, for which interest was payable at a rate of 1.2 times the People's Bank of China published rate.

As at the Latest Practicable Date, all outstanding amounts under the loans have been repaid.

(ii) Loans from Subsidiaries of CEEPH and CEIL (Please refer to (B) to (F) above)

The Target Group has from time to time obtained loans from Everbright Environmental Protection Venture Capital (Shenzhen) Ltd., an indirect wholly-owned subsidiary of CEEPH, and the subsidiaries of CEIL (including Everbright Environmental Energy (Jiangyin) Ltd., Everbright Environmental Energy (Suqian) Ltd. and Everbright Environmental Protection Engineering (Shenzhen) Ltd.) for various purposes such as the general working capital of the Target Group.

For the financial year ended 31 December 2013, the aggregate amount of loans outstanding amounted to approximately HK$67,175,000. The relevant loans were non-interest bearing and repayable on demand.

As at the Latest Practicable Date, all outstanding amounts under the loans have been repaid.

Provision of Services by Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd.

The Target Group has paid fees for the provision of services by each of Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd. under certain construction management and consultancy service agreements and operating service agreements. The aggregate amounts paid for the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 were as follows:

	Financial year ended 31 December			
	2011 (HK$'000)	**2012 (HK$'000)**	**2013 (HK$'000)**	**1H2014 (HK$'000)**
Construction Management and Consultancy Service Agreements	17,581	112,923	117,356	17,987
Operating Service Agreements	—	—	7,981	—

(i) Construction Management and Consultancy Service Agreements

Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd., both of which are wholly-owned subsidiaries of CEIL, had provided construction management and consultancy services to the Target Group under certain project service agreements, including the following:

(a) advising on construction costs, construction security, project timeline, design and construction specifications and procedures in relation to the relevant construction project;

(b) managing all materials and information relating to the relevant construction project; and

(c) coordinating all communications between the relevant Target Group Company and the relevant governmental authority and or other relevant parties involved in the construction project.

The above services were for the purposes of assisting the relevant Target Group Company in performing its obligations under the relevant concession agreement.

Under the construction management and consultancy services agreements, fees were payable in full to Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd. following completion of the relevant construction project. The aggregate amounts paid for the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 were HK$17,581,000, HK$112,923,000, HK$117,356,000 and HK$17,987,000 respectively. The amounts paid for the above services were arrived at on an arm's length basis and based on normal commercial terms.

The amount of service fees payable to Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd. which remained outstanding at the end of the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 were HK$33,808,000, HK$76,185,000, HK$179,765,000 and HK$22,437,000 respectively. Save for the construction management and consultancy services agreement entered into between Everbright Water (Xinyi) Ltd and Everbright Environmental Protection (China) Limited (for which interest was payable at a rate of 1.2 times of the People's Bank of China published rate), interest was not payable in respect of any outstanding service fees arising from the construction management and consultancy services agreements.

As at the Latest Practicable Date, no further services are being provided by Everbright Environmental Protection (China) Limited and Everbright Environmental Protection Engineering (Shenzhen) Ltd. to the Target Group under these management and consultancy service agreements. There is an outstanding amount of HK$23,056,000 owing by the Target Group in relation to such agreements.

(ii) Services provided by Everbright Environmental Protection (China) Limited under the Operating Service Agreements

Everbright Environmental Protection (China) Limited, a wholly-owned subsidiary of CEIL, had provided operating services to the Target Group under certain operating services agreements, including the following:

(a) providing daily operation and maintenance services in accordance with the industry practice;

(b) ensuring the necessary safety measures are implemented in respect of staff personnel and properties;

(c) maintaining and monitoring the operation logs and records and providing operation service reports; and

(d) ensuring the relevant discharge of plants satisfy all applicable regulatory standards.

The aggregate amount of fees paid to Everbright Environmental Protection (China) Limited pursuant to the operating services agreements for the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 was HK$7,981,000. The amount paid for the above services were arrived at on an arm's length basis and based on normal commercial terms.

As at the Latest Practicable Date, all such outstanding amounts have been settled.

Provision of corporate guarantees by Target Group to Everbright Environmental Protection (China) Limited

The Target Group has, in the past and from time to time, provided corporate guarantees to Everbright Environmental Protection (China) Limited, a wholly-owned subsidiary of CEIL, in relation to banking facilities granted by certain financial institutions to Everbright Environmental Protection (China) Limited.

The amounts guaranteed at the end of the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 were as follows:

	Financial year ended 31 December			
	2011 (HK$'000)	**2012 (HK$'000)**	**2013 (HK$'000)**	**1H2014 (HK$'000)**
Amounts guaranteed by the Target Group	—	534,748	447,615	—

The largest amount guaranteed during the period under review was HK$534,748,000. As at the Latest Practicable Date, the corporate guarantees provided have been fully discharged.

6.2 Present and On-going Interested Person Transactions

Details of the present and on-going transactions between the Target Group and its interested persons for the Relevant Period are set out below. The Target Group has granted or obtained loans for various purposes as described below. The amounts outstanding under the loans at the end of the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014 are as follows:

	Financial year ended 31 December			
	2011 (HK$'000)	2012 (HK$'000)	2013 (HK$'000)	1H2014 (HK$'000)
Loans from Everbright Environmental Protection (China) Limited	—	—	—	282,208
Accrued Interest payable to Everbright Environmental Protection (China) Limited	—	—	—	1,373
Loans from China Everbright Environmental Protection Holdings Limited	1,265,467	1,413,386	1,580,841	168,185
Accrued Interest payable to China Everbright Environmental Protection Holdings Limited	—	—	—	13,897
Loans from CEIL	44,547	30,165	6,548	1,732

(i) Loans from Everbright Environmental Protection (China) Limited and Accrued Interest Payable

Each of Everbright Water (Xinyi) Ltd, Everbright Reusable Water (Jiangyin) Ltd and Everbright Water (Dezhou) Ltd had on 24 June 2014 obtained term loans from Everbright Environmental Protection (China) Limited, a wholly-owned subsidiary of CEIL, for the purposes of repaying indebtedness under other existing loans and funding the general working capital requirements of the Target Group.

As at the end of 1H2014, the aggregate amount of loans outstanding amounted to approximately HK$282,208,000. Such loans are interest bearing based on the rate published by the People's Bank of China. The interest rate per annum is calculated based on the base rate for RMB Commercial Base Lending Rate for loan tenor between 3 to 5 years as announced by the People's Bank of China. Under the loan agreements, the loan amounts are payable in full on 20 June 2017 or within 30 days after the relevant Target Group Company obtains bank loans from International Finance Corporation, whichever is earlier. As at the end of 1H2014, the amount of accrued interest outstanding was HK$1,373,000.

The relevant loans to the Target Group were entered into in the ordinary course of business and were on an arm's length basis, taking into account the prevailing market interest rates at the time the loans were extended to the Target Group.

(ii) Loans from China Everbright Environmental Protection Holdings Limited and Accrued Interest Payable

CEWIL has in the past and from time to time obtained loans from CEEPH for various purposes such as the funding of projects and investments and the general working capital of the Target Group. The loans obtained were non-interest bearing and had no fixed repayment terms. The relevant loans to the Target Group were not on an arm's length basis but is to the benefit of the Target Group given that the loans are non-interest bearing.

For the past three financial years ended 31 December 2011, 2012 and 2013, the aggregate amount of such loans outstanding amounted to approximately HK$1,265,467,000, HK$1,413,386,000 and HK$1,580,841,000, respectively. The largest amount outstanding during the period under review was HK$1,580,841,000.

On 17 June 2014, CEWIL obtained two shareholder loans from China Everbright Environmental Protection Holdings Limited for the purposes of funding the projects and investments and the general working capital of the Target Group. The loan amounting to HK$56,000,000 will bear interest based on the Hong Kong interbank offered rate for the relevant period displayed on the Reuters Screen Page "HKABHIBOR" (or any replacement Reuters or other information service page which displays the rate) as of 11 a.m. on the relevant day for the offering of deposits in HK dollars and for a period comparable to the relevant interest bearing period (as set out in the shareholder loan agreement) plus 2.5%. The loan amounting to HK$112,185,000 is interest bearing, calculated based on 93% of the rate published by the People's Bank of China. The interest rate per annum is calculated based on the base rate for RMB Commercial Base Lending Rate for loan tenor between 3 to 5 years as announced by the People's Bank of China. Under the shareholder loan agreements, the loan amounts are payable in full on 26 December 2017. The relevant shareholder loan agreements were entered into in the ordinary course of business and were on an arm's length basis, taking into account prevailing market interest rates at the time the loans were extended by the Target Group.

On 18 June 2014, HK$1,210,050,000 under the relevant loans was repaid pursuant to the capitalisation of the loan and the allotment and issuance of one new share to CEEPH in consideration therewith.

As at the end of 1H2014, the aggregate amount of loans outstanding amounted to approximately HK$168,185,000 and the amount of accrued interest outstanding was HK$13,897,000.

As at the Latest Practicable Date, the outstanding balance under all the loans set out above amounted to HK$120,072,000.

(iii) Loans from CEIL

The Target Group has from time to time obtained loans from CEIL for various purposes such as the funding of projects and investments and the general working capital of the Target Group.

The loans obtained by EB-VW HK Holding Company Limited, Everbright Water (Zibo) Holdings Limited, Everbright Water (Ji'nan) Holdings Limited, Everbright Water (Dezhou) Holdings Limited, CEWIL and Everbright Water (Xuzhou) Holdings Limited were non-interest bearing and had no fixed repayment terms. The loans obtained by Everbright Water (Xinyi) Ltd, Everbright Water (Ji'nan) Ltd, Everbright Water (Ji'nan Licheng) Ltd and Everbright Water (Lingxian) Ltd were non-interest bearing and were repayable within one year.

As at the end of the past three financial years ended 31 December 2011, 2012 and 2013 and 1H2014, the aggregate amount of loans outstanding amounted to approximately HK$44,547,000, HK$30,165,000, HK$6,548,000 and HK$1,732,000 respectively. The largest amount outstanding during the period under review was HK$44,547,000.

In addition, after 1H2014, the Target Group obtained an additional loan of HK$115,884,000 from CEIL to fund the consideration payable for the acquisition of 40% equity interest in EB-VW HK Holding Company Limited and the shareholder's loan and 78% equity interest in Qingdao Veolia Water Operating Company Limited. The loan is non-interest bearing and is repayable within one year.

The relevant loans to the Target Group are not on an arm's length basis but are to the benefit of the Target Group given that the loans are non-interest bearing.

As at the Latest Practicable Date, the aggregate amount of all the loans outstanding as set out above amounted to approximately HK$116,572,000.

7. CONFLICTS OF INTEREST

In general, a conflict of interest arises when any of the directors of CEWIL, chief executive officer and controlling shareholders of CEWIL or their associates is carrying on or has any interest in any other corporation carrying on the same business or dealing in similar products as the Target Group.

Save as disclosed in Section 6 titled "Interested Person Transactions" of the Target Letter, none of the directors of CEWIL, chief executive officer and controlling shareholders of CEWIL or their associates has any interest, direct or indirect, in:

(i) any material transactions to which the Target Group was or is a party;

(ii) any corporation which carries on the same business or deals in similar products as the existing business of the Target Group; and

(iii) any enterprise or company that is the Target Group's customer or supplier of goods or services.

CEIL, which is the parent company and controlling shareholder of CEWIL, has been invited to bid for a portfolio of wastewater treatment and solid waste treatment assets in the PRC (the "**Specific Assets**"), which has been put up for sale. As the deadline for submission of a bid is prior to Completion, CEIL or any CEIL ROFR Group Company (as defined below) may submit a bid for the Specific Assets. There is no certainty that such bid, if submitted, will result in a transaction and/or CEIL or its subsidiary acquiring the Specific Assets.

To mitigate any potential conflicts of interests, CEIL has, on 7 November 2014, provided a non-compete undertaking in favour of HanKore (the "**Non-Compete Undertaking**"), pursuant to which CEIL undertook that it shall not and shall procure the CEIL ROFR Group not to, whether directly or indirectly, engage in, carry on (whether alone or in partnership or joint venture with anyone else) or otherwise be interested in (whether as a trustee, principal, agent, shareholder, unitholder or in any other capacity) the Relevant Business in all territories where the Enlarged Group operates in, save that the Non-Compete Undertaking shall not be construed as prohibiting CEIL or any CEIL ROFR Group Company from:

(i) subject to the ROFR (as defined below), acquiring and holding Mixed Assets; or

(ii) holding, for investment purposes, of an interest of not more than 5.0% in any entity or business engaged in the Relevant Business, provided that the CEIL ROFR Group does not have any involvement in the day-to-day management of or control ("**control**" as defined in the Listing Manual) over such entity or business.

CEIL has also, on 7 November 2014, granted HanKore a right of first refusal (the "**ROFR**") pursuant to which CEIL shall give HanKore a written notice (the "**ROFR Notice**") of an offer of sale by the relevant CEIL ROFR Group Company of the Relevant Assets to HanKore for a consideration equivalent to the Acquisition Costs and subject to such legal or regulatory approvals, consents or waivers as may be required to be obtained by in connection therewith (the "**Proposed Disposal**") within 90 Business Days upon the completion of the acquisition by the relevant CEIL ROFR Group Company of the respective Mixed Assets which the Relevant Assets are part of.

For the purposes of the Non-Compete Undertaking and the ROFR:

"**CEIL ROFR Group**" means CEIL and its subsidiaries, excluding the Enlarged Group, and "**CEIL ROFR Group Company**" means any one of them.

"**Relevant Business**" refers to environmental water business, involving wastewater treatment, reusable water projects and wastewater heat pump projects;

"**Mixed Assets**" refers to any portfolio of assets that also consists of assets other than assets relating to the Relevant Business, which must be acquired together, with the Relevant Assets within such portfolio not being offered separately for sale. For the avoidance of doubt, this includes the Specific Assets.

"**Relevant Assets**" refers to the assets in a portfolio of Mixed Assets engaged in the Relevant Business;

"**Acquisition Costs**" means consideration paid by the relevant CEIL ROFR Group Company to acquire the Relevant Assets, any monies or capital which are injected, invested or contributed by the relevant CEIL ROFR Group Company to the Relevant Assets after completion of the acquisition of the Relevant Assets, any costs reasonably incurred by the relevant CEIL ROFR Group Company in restructuring a portfolio of Mixed Assets such that the respective Relevant Assets can be offered for sale pursuant to the ROFR, and any fees, expenses and other transaction costs reasonably incurred by the relevant CEIL ROFR Group Company in respect of the foregoing.

If:

(i) HanKore does not confirm in writing to CEIL HanKore's interest in the Proposed Disposal within 30 Business Days (or such other period as CEIL and HanKore may agree in writing) from the date of HanKore's receipt of the ROFR Notice, or

(ii) HanKore does not enter into a binding commitment for the completion of the transaction contemplated by the Proposed Disposal (in the form of a binding definitive agreement) within 90 Business Days (or such other period as CEIL and HanKore may agree in writing) from the date of HanKore's receipt of the ROFR Notice, or

(iii) (where HanKore has entered into a binding commitment for the completion of the transaction contemplated by the Proposed Disposal) the proposed completion of the transaction contemplated by the Proposed Disposal is aborted, lapses or is terminated in accordance with the terms of such binding commitment (not due to the breach by the CEIL ROFR Group of its obligations under the binding commitment),

the ROFR shall be deemed to have lapsed (such date being the "**Date of Lapse**") and CEIL shall be free to pursue offering the opportunity for the Proposed Disposal to third parties on such terms and conditions which are no more favourable than the price and terms which were offered to HanKore under the ROFR.

If the ROFR in respect of a Proposed Disposal is deemed to have lapsed pursuant to the above and (i) the CEIL ROFR Group does not enter into a binding definitive agreement with a third party (the "**Third Party Agreement**") in respect of the Proposed Disposal within 12 months from the Date of Lapse; or (ii) the completion of the transaction pursuant to the Third Party Agreement is aborted, lapses or is terminated (the "**ROFR Option Period**"), HanKore's ROFR in respect of that Proposed Disposal shall be reinstated and CEIL shall provide the ROFR Notice to HanKore within seven Business Days of the expiration of the ROFR Option Period

Any sale or any transfer of the Relevant Assets by the CEIL ROFR Group to HanKore shall be subject to the requirements of the Listing Manual, and in particular those requirements under Chapter 9 and/or Chapter 10 of the Listing Manual relating to interested person transactions (where applicable).

The Non-Compete Undertaking and the ROFR shall commence on completion of the Proposed Acquisition. CEIL is entitled to terminate the Non-Compete Undertaking and the ROFR by written notice to HanKore if any of the following events occur:

(i) CEIL and/or its related corporations (as defined under the Companies Act) ceases or cease to be a controlling shareholder (as defined in the Listing Manual) of HanKore; or

(ii) HanKore ceases to be listed on the Main Board of the SGX-ST.

8. MATERIAL CONTRACTS OF THE TARGET GROUP

The following material contracts, not being contracts entered into in the ordinary course of business of the Target Group, have been entered into by the Target Group within the two years preceding the Latest Practicable Date:

Parties	Date	Nature of Contract	Consideration
(1) Veolia Water S.A. (2) China Everbright Water Investments Limited	5 August 2014	Transfer of 78 per cent. of the equity interest in Qingdao Everbright Water Operating Company Limited (formerly known as Qingdao Veolia Water Operating Company Limited from Veolia Water S.A. to China Everbright Water Investments Limited	RMB1,800,000
(1) Veolia Water S.A. (2) China Everbright Water Investments Limited	24 July 2014	Transfer of 40 per cent. of the equity interest in Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Ltd.)from Veolia Water S.A. to China Everbright Water Investments Limited	RMB70,891,700
(1) Veolia Water S.A. (2) China Everbright Water Investments Limited (3) Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Ltd.)	24 July 2014	Assignment of shareholder loan payable by Everbright Water (Qingdao) Holdings Limited (formerly known as EB-VW HK Holding Company Ltd.) from Veolia Water S.A. to China Everbright Investments Limited	RMB19,308,300

9. MATERIAL LITIGATION OF THE TARGET GROUP

The Target Group is not, as at the Latest Practicable Date, engaged in any legal or arbitration proceedings, including those which are pending or known to be contemplated, which may have or have had in the 12 months before the date of this Circular a material effect on its financial position or profitability of the Target Group, and the directors of CEWIL have no knowledge of any proceedings pending or threatened against any Target Group Company or any facts likely to give rise to any litigation, claims or proceedings which might have a material effect on the financial position or profitability of the Target Group.

American Appraisal China Limited
13/F, On Hing Building
1 On Hing Terrace, Central, Hong Kong
美國評值有限公司
香港中環安慶台一號安慶大廈13樓
Tel +852 2511 5200 / Fax +852 2511 9626

Leading / Thinking / Performing

American Appraisal

7 November 2014

HanKore Environment Tech Group Limited
Room 1105-1110, Jialong International Tower
No. 19 Chaoyang Park Road, Chaoyang Dist,
Beijing PRC 100125

Our Ref.: 14/0372

Dear Sirs,

SUMMARY OF VALUATION REPORT ON
FAIR VALUE OF 100% EQUITY INTEREST IN
CHINA EVERBRIGHT WATER INVESTMENTS LIMITED

1. INTRODUCTION

Pursuant to the terms, conditions and purpose of an engagement agreement dated 18 February 2014 (“Engagement Agreement”) between HanKore Environment Tech Group Limited (“HanKore” or “Client”) and American Appraisal China Limited (“American Appraisal”), we have performed an analysis of fair value of the 100% equity interest of China Everbright Water Investments Limited (“CEWIL” or “Company”) as of 31 December 2013 (“Valuation Date”).

HanKore is a public company listed in Singapore and is principally engaged in the construction, development and operation of sewage water treatment plants in China. HanKore has entered into a framework agreement with CEWIL, pursuant to which the parent of CEWIL, China Everbright International Limited, will inject their investments in CEWIL into HanKore at the consideration to be settled by the new shares issued by Hankore (“Proposed Transaction”).

The Proposed Transaction constitutes a very substantial transaction under listing rules in Singapore (“Listing Rules”) and circular of the transaction (“Circular”) would be dispatched to shareholders for approval of the Proposed Transaction.

We understand our opinion of value and the purpose of our analysis is to be used for public disclosure in the circular to the Client’s shareholders in respect of the Proposed Transaction and be made available to the Client’s shareholders for inspection in compliance with the Listing Rules. The responsibility for determining the transaction price rests solely with the Client.

This letter has been prepared for the purpose of incorporation in the Circular to be issued in relation to the announcement of the Proposed Transaction, and is a summary of the information contained in American Appraisal's full valuation report dated 30 May 2014 (the "Independent Valuation Report"). Accordingly, this letter should be read in conjunction with the Independent Valuation Report. For further details, please refer to the full Independent Valuation Report at Hankore' registered office at 9 Battery Road, Straits Trading Building, #20-02, Singapore 049910.

Unless otherwise stated, words and expressions defined in the Circular for purpose of obtaining shareholder's approval for the Proposed Transaction will have the same meaning in this letter.

2. TERMS OF REFERENCE

Basis of Valuation

Fair value defined in the assignment as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction" and is equivalent to market value defined by the International Valuation Standards as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Fair value has been established based on premise of value and underlying analytical approaches appropriate to the facts and circumstances pertaining to assets valued. The scope of work performed and the premise of value referenced in the estimation of fair value of assets are described in the relevant sections of our report dated 30 May 2014.

Definition of Business Enterprise

Business enterprise is defined for this appraisal as the total invested capital, that is equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. *Equity value* is equivalent to business enterprise value less interest-bearing debts.

3. VALUATION METHODOLOGIES

The standard three approaches on valuation are summarized as below:

- Income approach – This approach recognizes that the current value of an asset (liability) is premised on the expected receipt (payment) of future economic benefits (obligations) generated over its remaining life. These benefits can be in the form of earnings, net income, cash flow, or other measures of profitability and should include the proceeds from final disposition as well as cost savings and tax deductions. Value indications are developed by discounting expected benefits to their present value at the required rate of return that incorporates the time value of money and risks associated with the particular asset. The discount rate selected is generally based on expected rates of return available from alternative investments of similar type, quality, and risk as at the Valuation Date.

- Market Approach – This approach is a technique used to estimate value from an analysis of actual transactions or offerings for economically comparable assets available as at the Valuation Date. The process is essentially that of comparison and correlation between the subject asset and similar assets which have recently been sold or are offered for sale in the market. The transaction or offering prices of the comparable assets are adjusted for dissimilarities in characteristics including risk, growth and other factors. The adjusted prices of the comparable assets provide an indication of value for the subject asset.

- Cost Approach – This approach is a technique that uses the reproduction or replacement cost as an initial basis for value. The cost to reproduce or replace the subject asset with a new asset, either identical or having the same utility, establishes the highest amount a prudent investor is likely to pay. To the extent that the asset being valued provides lesser utility than a new one, due to physical deterioration, functional and/or economic obsolescence, the value of the subject asset is adjusted for those reductions in value. Adjustments may be made for age, physical wear and tear, technological inefficiencies, changes in price levels, and reduced demand, among other factors.

Our conclusion relies on the approaches judged to be most appropriate for the purpose and scope of our analysis, as well as the nature and reliability of the data available to us. In forming our opinion of fair value of the business enterprise as going concern business, we primarily rely on the discounted cash flow analysis under the income approach which better reflects the economic features of the wastewater treatment projects of the Company.

Although we are able to identify pure play public listed companies with major business on wastewater treatment in China, the use of median price multiples devised from comparable companies is limited to cross check purpose. Among various valuation multiples, P/E ratios and EV/Invested Capital are commonly used in the valuation of public utility business. The selection of P/E ratios devised from comparable companies are much distorted by accounting treatments on interest income from financial receivables, service concession and construction profit, while the EV to Invested Capital ratios are less appropriate to reflect the difference in the ability to source new projects in future. While useful for certain purposes with less judgments, the cost approach does not capture future earning potential of the business or current operating features of the Company and, thus, is generally not considered in the valuation of going concern business. Please refer to our Independent Valuation Report for detailed information on historical financial analysis, Management projections, valuation methodologies applied and other assumptions.

4. VALUATION SUMMARY AND CONCLUSION

Based on our analysis and information provided by Management, our valuation conclusion is summarized as below:

A. Summary of Results based on Income Approach

Using the Income Approach, it is in our opinion that the 100% equity value of CEWIL as at Valuation Date is reasonably stated in by the amount of CHINESE YUAN FIVE BILLION FOUR HUNDRED AND THIRTY MILLION (RMB 5,430,000,000) ONLY (see Exhibit A below). In arriving at our conclusion, we have adopted a discount rate of 9.5%, perpetual growth rate of 3% p.a. and discount for lack of marketability of 5%.

Exhibit A

Valuation Conclusion	Indicated Value of Invested Capital RMB'000	Marketability Discount 5.0%	Total RMB'000
Income Approach:			
Discounted Cash Flow Analysis	6,167,963	(308,398)	5,859,565
Discount Rate 9.5%			
Perpetual Growth Rate 3%			
Indicated Value of Business Enterprise (Invested Capital), based on DCF analysis			5,859,565
Excess cash / Excess Non-Operating Assets			243,517
Business Enterprise Value (ROUNDED)			**6,103,000**
Outstanding Debt			(674,553)
Equity Value (ROUNDED)			**5,430,000**

B. Cross Check by Market Approach

Based upon the investigation and discounted cash flow analysis outlined above, it is our opinion that the fair value of the 100% equity and business enterprise of CEWIL are reasonably represented by the amount of Rmb 5.43 billion and Rmb 5.86 billion respectively.

The concluded value based on the income approach indicates the implied P/E ratio and EV / Invested Capital ratio the injected business are 26.10x and 2.99x respectively on controlling basis as compared with those devised from comparable companies on minority basis (see Exhibit B below).

Exhibit B

Performance of Guideline Companies

Guideline Companies	Bloomberg Code		P/E Latest Fin Yr		EV/Inv.Cap. Latest Fin Yr	ROA Latest Fin Yr
HanKore Environment Tech Group Ltd	BIOT SP		25.31		1.38	3.69%
United Envirotech Ltd	UENV SP		18.28		1.69	5.20%
Hyflux Ltd	HYF SP		18.75		1.05	2.60%
SIIC Environment Holdings Ltd	SIIC SP		50.20		2.66	2.67%
China Water Affairs Group Ltd	855 HK		14.49		1.07	2.45%
China Everbright International Ltd	257 HK		35.13		3.83	6.77%
Sound Global Ltd	967 HK		11.00		2.00	6.25%
Beijing Enterprises Water Group Ltd	371 HK		37.58		2.20	2.40%
	Highest		50.20		3.83	6.77%
	Lowest		11.00		1.05	2.40%
	Average		26.34		1.98	4.00%
	Median		22.03		1.84	3.18%
	Implied Multiples of CEWI		26.10		2.99	5.39%
Financial Year of CEWI			Latest Fin Yr		Latest Fin Yr	
Economic Measures			Net income		Inv. Cap.	
			Rmb '000		Rmb '000	
Financial Results			208,071		1,961,999	
Fair Value Based on DCF		100% Equity	5,430,000	EV	5,859,565	
			26.10		2.99	

The implied 26.10x of P/E multiples of CEWI based on the income approach are higher than the median multiples of the comparable company at 22.0x which can be explained by the control premium normally ranged from 20% - 30%.

The implied 2.99x of EV to Invested Capital of CEWI based on the income approach is higher than the industry median and is still considered reasonable in light of higher return on assets at 5.39% of CEWI than the median 3.18% of the comparable companies.

5. LIMITING CONDITIONS TO OUR VALUATION

i. Our Independent Valuation Report does not constitute an audit in accordance with Auditing Standards. American Appraisal has relied on explanations and information provided by the Management and accepted the information and projections provided to us as true and accurate.

ii. The responsibility for forecasts and the assumptions on which they are based is solely that of the Management. It must be emphasized that revenue and profit forecasts necessarily depend upon subjective judgment. In consequence, they are not capable of being audited or substantiated in the same way as financial statements, which present the results of completed periods. As a part of our analysis, we have reviewed Management's forecast for its consistency and reasonableness.

iii. American Appraisal has relied on data from various external sources. These sources are considered to be reliable and therefore, American Appraisal assumes no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where American Appraisal has relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure the accuracy of such data and that such data has been accurately and correctly extracted from those sources and /or reproduced in its proper form and context. American Appraisal has assumed that the business continues normally without any disruptions due to statutory or other external/internal occurrences.

iv. The scope of work has been limited both in terms of the areas of the business and operations which have been reviewed. There may be matters, other than those noted in the report, which might be relevant in the context of the transaction and which a wider scope might uncover.

v. Our report is issued on the understanding that Management has drawn our attention to all matters of which they are aware concerning the financial position of the businesses appraised, which may have an impact on the Independent Valuation Report up to the Valuation Date. American Appraisal has no responsibility to update the report for events and circumstances occurring after the Valuation Date.

vi. The use of our report is restricted to the purpose indicated herein. American Appraisal authorizes HanKore to include a copy of this valuation summary letter in the SGX circular on the Proposed Transaction. This disclosure is authorized in consideration of the condition that American Appraisal shall have a reasonable opportunity to review and approve any references to American Appraisal, its work, this engagement or the report prior to disclosure.

vii. American Appraisal expressly disclaims all liability for any loss or damage of whatever kind which may arise from any person acting on any information and opinions relating to the investments contained in the report which are contrary to the stated purpose unless otherwise provided by law. Full terms and conditions of our work are included in our engagement letter dated 18 February 2014.

viii. The valuation of business and equity is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value and we normally express our opinion on the value as falling within a likely range.

ix. American Appraisal has acted as an independent third party and, as such, shall not be considered an advocate should any dispute arise between concerned parties.

x. We have no present or planned future interest in HanKore or its group companies and the fee for our report is not contingent upon the outcome of the transaction.

6. CONFIDENTIALITY AND DUTY OF CARE

This letter and report are addressed strictly to the Directors of HanKore and is to be for intended purpose as set out above and accordingly neither the report nor the letter may be used or relied upon in any other connection, and are not intended to confer any benefit on, any other person (including without limitations the respective shareholder of HanKore). Any recommendation made by the Directors in respect to this Proposed Transaction shall remain the responsibility of the Directors.

In rendering our valuation conclusion, we have not had regard to the specific investment objectives, financial situation or individual circumstances of any shareholder. Our valuation conclusion should not be the sole basis for deciding whether or not to execute the Proposed Transaction.

We understand that the Independent Financial Advisor ("IFA") may require this letter and our Independent Valuation Report for their internal reference. The IFA will perform their own separate analysis to satisfy their roles and responsibilities. Our role and report is not meant to substitute their own procedures to substantiate the opinion they are required to render.

While a copy of this letter may be reproduced in the Circular, neither HanKore nor the Directors may reproduce, disseminate or refer to this letter and the Independent Valuation Report (or any part thereof) for any other purposes at any time and in any manner without the prior written consent of American Appraisal in each specific case. In any event, giving our consent to the inclusion of letter in such a circular, we do not accept any duty of care and deny any responsibilities or liability to any third party other than the party to whom our letter and report is addressed, unless otherwise provided by law.

Respectfully submitted,

American Appraisal

AMERICAN APPRAISAL CHINA LIMITED

Note:

This valuation was prepared under the supervision of Mr. Ricky Lee as project-in-charge with significant professional assistance from Mr. Jay Lam and Ms. Srividya C. Gopalakrishnan. Mr. Lee has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over fifteen years and is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst.

GRANT SHERMAN

APPRAISAL REPORT B02114

VALUATION OF BUSINESS ENTERPRISE

CHINA EVERBRIGHT WATER INVESTMENT LIMITED

31 DECEMBER 2013

GRANT SHERMAN APPRAISAL LIMITED 中證評估有限公司
Unit 1005, 10/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong 香港灣仔告士打道151號安盛中心10樓1005室
Tel 電話：(852) 2877 8330 / Fax 傳真：(852) 2877 6718 / Web 網站：www.grantsherman.com

GRANT SHERMAN

TABLE OF CONTENTS

APPRAISAL SUMMARY LETTER 1

INTRODUCTION 3

- CHINA EVERBRIGHT INTERNATIONAL LIMITED 3
- THE PROJECT COMPANIES 6

INDUSTRY OVERVIEW 11

BASIS OF VALUATION AND ASSUMPTIONS 16

- INCOME APPROACH 20
- MARKET APPROACH 20
- ASSET-BASED APPROACH 20
- SELECTION OF VALUATION APPROACH 20
- DISCOUNT RATE DEVELOPMENT 21
  - Company Specific Risk Premium 24
  - Effective Interest in Project Companies 24

VALUATION OF EVERBRIGHT WATER (XINYI) LIMITED 24

FAIR MARKET VALUE OF EQUITY INTEREST IN CEWIL 25

CROSS CHECK WITH MARKET MULTIPLES 25

CONCLUSION OF VALUE 27

ASSUMPTIONS AND LIMITING CONDITIONS

CERTIFICATION

NORMAL SERVICE CONDITIONS

GRANT SHERMAN

23 May 2014 Our Ref.: B02114

China Everbright International Limited
Room 2703, 27th Floor,
Far East Finance Centre,
16 Harcourt Road,
Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the fair market value of a 100% equity interest in the business enterprise of China Everbright Water Investment Limited ("CEWIL" or the "Subject Company"). CEWIL, via its indirectly owned 14 project companies (the "Project Companies"), is principally engaged in the business of environmental water, including waste water treatment, reusable water treatment and heat pump etc., in the People's Republic of China (the "PRC").

This letter identifies the target appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

In this appraisal, *Business enterprise* is defined as the combination of all tangible assets (buildings, machinery and equipment), long term investment, net working capital and intangible assets of a continuing business. Alternatively, the business enterprise is equivalent to the investment capital of the business, that is, the combination of the value of shareholder's equity and long-term debt.

Fair market value is defined as "the estimated amount at which a property might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts". The fair market value of a 100% equity interest in the business enterprise of the Subject Company is achieved by summing up all the fair market value of the effective interest in the business enterprise of each of the Project Companies, which is further derived through the application of the income approach to each of the Project Companies.

The purpose of this appraisal is to express an independent opinion of the fair market value of a 100% equity interest in the business enterprise of the Subject Company as of 31 December 2013 (the "Appraisal Date"). It is our understanding that this

GRANT SHERMAN APPRAISAL LIMITED 中證評估有限公司
Unit 1005, 10/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong 香港灣仔告士打道151號安盛中心10樓1005室
Tel 電話：(852) 2877 8330 / Fax 傳真：(852) 2877 6718 / Web 網站：www.grantsherman.com

appraisal will be used for transaction negotiation purposes only.

Sources of Information

For the purpose of this appraisal, we were furnished by the Management with financial statements of the Project Companies, and other related contracts and agreements in regard to the operations of the Project Companies.

We also relied on the following information in performing this appraisal:

- The data from the Business Valuation Resources Valuation Handbook 2014 by Duff & Phelps;
- The financial data of the comparable companies from Bloomberg;
- The financial projection of the Project Companies (the "Projections") provided by the Management;
- The Company's opinion on the concession period provided by the Management; and
- The public data from National Bureau of Statistics of China.

We have also researched and consulted on some other public resources through the internet for the industrial average growth rate and the industry and market overview in general.

GRANT SHERMAN

Our Ref.: B02114

INTRODUCTION

China Everbright International Limited

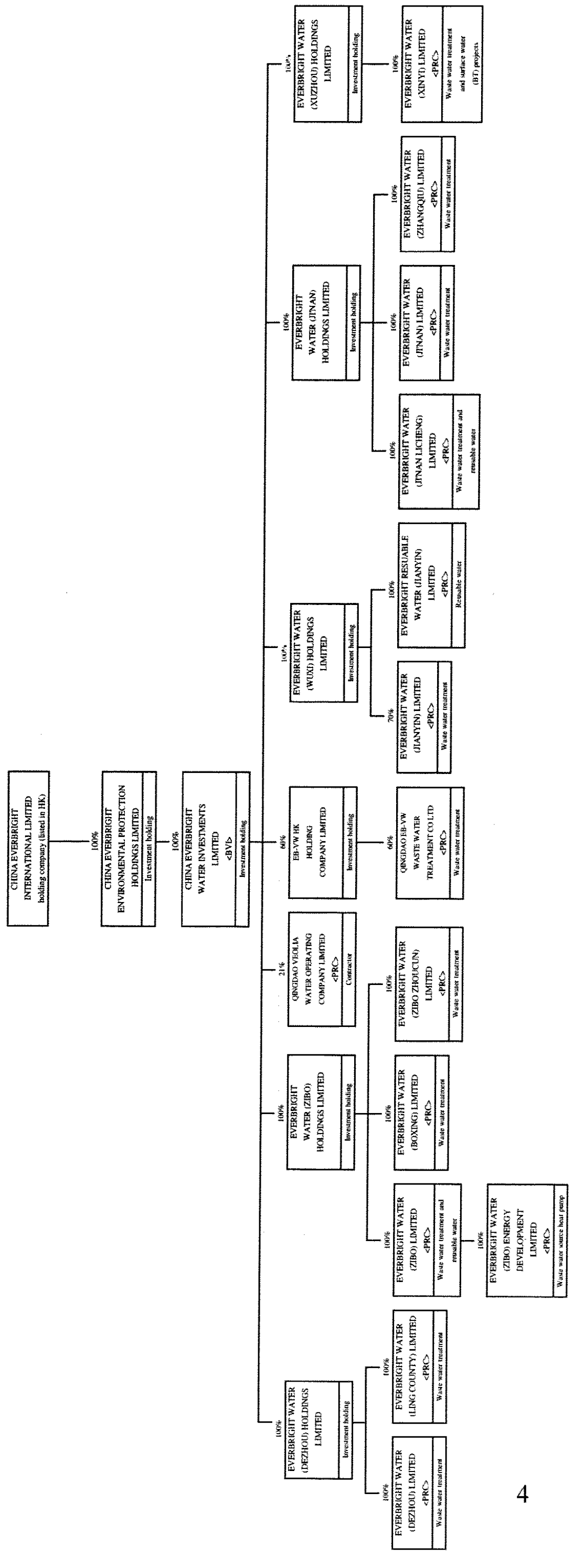
China Everbright International Limited (Stock Code: 257 HK) (the "Company", and together with its subsidiaries, collectively the "Group") is a business conglomerate which has integrated project investment, construction engineering, operation management, technology development and equipment manufacturing focusing on environmental protection and alternative energy businesses. The business of the Group can be classified into environmental energy, environmental water and alternative energy. Its investment projects are mainly located in the fields of waste-to-energy, methane-to-energy, biomass power generation, solar photovoltaic energy, industrial solid waste and hazardous waste treatment, waste water treatment and reusable water treatment etc. These projects are spreading across Jiangsu, Shandong, Guangdong, Anhui, Zhejiang, Hainan, Hunan Provinces in the PRC and Germany.

China Everbright Water Investments Limited ("CEWIL" or the "Subject Company"), an indirectly wholly owned subsidiary of the Company, via its subsidiaries, is principally engaged in the business of environmental water which includes waste water treatment, reusable water treatment and heat pump etc. in the PRC. The organization chart below depicts the environmental water business of the Company.

GRANT SHERMAN

Our Ref.: B02114

Organisation Chart - Environmental Water Business



4

GRANT SHERMAN

Our Ref.: B02114

On 30 December 2013, the Company announced that CEWIL has entered into a Framework Agreement with Hankore Environment Tech Group Limited ("HanKore"), pursuant to which CEWIL and the Company have proposed to inject all their investments in the environmental water sector into Hankore. According to the Company, the environmental water sector includes 14 project companies (the "Project Companies"). Consequently, the Company requires an independent opinion of the fair market value of CEWIL equivalent to the fair market value of holding interests of the Project Companies.

GRANT SHERMAN

Our Ref.: B02114

The Project Companies

光大水务(德州)有限公司 (Everbright Water (Dezhou) Limited)
Everbright Water (Dezhou) Limited was incorporated in the PRC in February 2012. It is principally engaged in waste water treatment industry in Dezhou city, Shandong Province. On 17 September 2011, the Company and Dezhou Municipal Environmental Protection Bureau entered into an agreement of a 25-years BOT project for Dezhou Nanyunhe Waste Water Treatment Project. Phase I of the project currently operates waste water treatment plant with a designed capacity of 75,000 t/day. According to the Management, Phase II of the project will construct waste water treatment plant with a designed capacity of 75,000 t/day and will start operation in 2016. Both phases of the project mainly process household waste water.

光大水务(陵县)有限公司 (Everbright Water (Ling County) Limited)
Everbright Water (Ling County) Limited was incorporated in the PRC in December 2009. It is principally engaged in waste water treatment industry at Ling County, Dezhou City, Shandong Province. On 23 September 2009 and 10 May 2010, the Company and Ling County People's Government entered into agreements of a 30-years BOT project for Ling County Waste Water Treatment Project Plant 2 and a 30-years TOT project for Ling County Waste Water Treatment Project Plant 1 respectively. The two waste water treatment plants have a total designed capacity of 60,000 t/day and process both industrial and household waste water.

光大水务(淄博)有限公司 (Everbright Water (Zibo) Limited)
Everbright Water (Zibo) Limited was incorporated in the PRC in November 2005. It is principally engaged in both waste water treatment and reusable water treatment at Zibo city, Shandong Province. In 2005, CEWIL, Zibo City Water Resources and Fisheries Bureau and Zibo City Environmental Protection Bureau entered into agreements of a 25-years concession for the operation of plant No.1 and No.2. On 13 July 2006, Zibo Finance Bureau, Zibo City Environmental Protection Bureau and Everbright Water (Zibo) Limited entered into another agreement in relation to a 25-years BOT project for the plant No.3. Currently, Everbright Water (Zibo) Limited operates three waste water treatment plants with a total designed capacity of 350,000 t/day for processing both industrial and household waste water, and a reusable water treatment plant with a designed capacity of 200m^3/hour. According to the Management, Everbright Water (Zibo) Limited has planned to expand the designed

GRANT SHERMAN

Our Ref.: B02114

capacity of waste water treatment to 430,000 t/day.

光大水务(淄博)能源发展有限公司 (Everbright Water (Zibo) Energy Development Limited)
Everbright Water (Zibo) Energy Development Limited was incorporated in the PRC in June 2009. It is principally engaged in the provision of heating and cooling services for nearby industrial and residential complexes. In November 2009 and January 2011, Everbright Water (Zibo) Energy Development Limited had entered into two separate agreements with Zibo Hi-Tech Industry Development Zone State-Owned Asset Management Corporation in regards to the provision of phase one and phase two of the heating and cooling services to Zibo High Polymer Material Industry Innovation Park and Advanced Ceramics of Zibo High-Tech Innovation Center, respectively. According to the Management, the serviceable area of phase one heating system is 125,000 m^2 and that of phase one cooling system is 87,000 m^2, while the serviceable area of phase two heating system is 180,000 m^2 and that of phase two cooling system is 126,000 m^2.

光大水务(博兴)有限公司 (Everbright Water (Boxing) Limited)
Everbright Water (Boxing) Limited was incorporated in the PRC in February 2008. It is principally engaged in the waste water treatment industry at Boxing district, Binzhou city, Shandong Province. On 9 October 2007, Boxing County People's Government and Everbright Water (Boxing) Limited entered into an agreement for Binzhou Boxing Waste Water Treatment Project under TOT basis with a concession period of 25-years. Currently, Everbright Water (Boxing) Limited operates waste water treatment plant with a designed capacity of 60,000 t/day and processes both industrial and household waste water. According to the Management, Everbright Water (Boxing) Limited has planned to expand the designed capacity to 100,000 t/day.

光大水务(淄博周村)有限公司 (Everbright Water (Zibo Zhoucun) Limited)
Everbright Water (Zibo Zhoucun) Limited was incorporated in the PRC in December 2007. It is principally engaged in waste water treatment industry at Zhoucun district, Zibo city, Shandong Province. On 26 October 2007, Zibo Zhoucun District People's Government and Everbright Water (Zibo Zhoucun) Limited entered into an agreement for Zibo Zhoucun Waste Water Treatment Project under BOT basis with a concession period of 25-years. Currently, Everbright Water (Zibo Zhoucun) Limited operates the waste water treatment plant with a designed capacity of 40,000 t/day and

GRANT SHERMAN

Our Ref.: B02114

processes both industrial and household waste water. According to the Management, Everbright Water (Zibo Zhoucun) Limited has planned to expand the designed capacity to 80,000 t/day.

青岛光威污水处理有限公司 (Qingdao EB-VW Waste Water Treatment Co., Ltd)
Qingdao EB-VW Waste Water Treatment Co., Ltd was incorporated in the PRC in August 2004. It is principally engaged in waste water treatment industry at Qingdao city, Shandong Province. Qingdao EB-VW Waste Water Treatment Co., Ltd is 60% held by EB-VW HK Holdings Company Limited and 40% held by Qingdao Municipal Drainage Company, whereas 60% of EB-VW HK Holdings Company Limited is held by China Everbright International Limited and 40% by Veolia Environment accordingly. On 31 August 2003, Qingdao EB-VW Waste Water Treatment Co., Ltd entered into an agreement of Qingdao Waste Water Treatment Project, which consisted of a 25-years BOT project for Maidao Plant and TOT project for the Haibohe Plant. According to the waste water treatment agreement, waste water treatment fee is calculated based on the waste water treatment volume of Haibohe Plant and Maidao Plant with a total designed capacity of 220,000 t/day.

青岛威立雅水务运营有限公司 (Qingdao Veolia Water Operating Co., Ltd)
Qingdao Veolia Water Operating Co., Ltd was incorporated in the PRC and is an associate of the Subject Company with 21% equity interest. In June 2004, Qingdao EB-VW Waste Water Treatment Co., Ltd. entered into an operation and maintenance agreement with Qingdao Veolia Water Operating Co, Ltd. Pursuant to the agreement, Qingdao EB-VW Waste Water Treatment Co., Ltd will subcontract to Qingdao Veolia Water Operating Co., Ltd the provision of the operation and maintenance services in respect of the waste-water treatment plants in Qingdao, the PRC.

光大水务(江阴)有限公司 (Everbright Water (Jiangyin) Limited)
Everbright Water (Jiangyin) Limited was incorporated in the PRC in January 2008. It is principally engaged in waste water treatment industry at Jiangyin city, Jiangsu Province. In November 2007, Jiangyin Construction Bureau, Jiangyin City Finance Bureau, Jiangyin City Xin Guo Lian Investment and Development Company Limited and Everbright Water (Wuxi) Holdings Limited entered into an agreement of Jiangyin Waste Water Treatment Project under TOT basis for a concession period of 30-years. Currently, Everbright Water (Jiangyin) Limited operates four waste water treatment plants with a total designed capacity of 190,000 t/day and processes both industrial

GRANT SHERMAN

Our Ref.: B02114

and household waste water. According to the Management, Everbright Water (Jiangyin) Limited has planned to expand the capacity to 220,000 t/day.

光大中水利用(江阴)有限公司 (Everbright Reusable Water (Jiangyin) Limited)
Everbright Reusable Water (Jiangyin) Limited was incorporated in the PRC in May 2011. It is principally engaged in reusable water industry at Jiangyin city, Jiangsu Province. In November 2010, Jiangyin Economic Development Zone Management Committee and the company entered into an agreement for the construction and operation of the reusable water plant. Everbright Reusable Water (Jiangyin) Limited started its operation in January 2013. Currently it has a designed capacity of 10,000 t/day.

光大水务(济南历城)有限公司 (Everbright Water (Jinan Licheng) Limited)
Everbright Water (Jinan Licheng) Limited was incorporated in the PRC in November 2008. It is principally engaged in waste water treatment and reusable water industry at Licheng district, Jinan City, Shandong Province. On 1 August 2008, the Company and Jinan Utilities Authority entered into an agreement of Jinan Licheng Waste Water Treatment Project (Plant 3) under BOT basis with a concession period of 26-years. The project has two phases with a total designed capacity of 200,000 t/day and processes mainly household waste water. On 18 November 2011, Everbright Water (Jinan Licheng) Limited and Jinan Utilities Authority signed a supplementary agreement (扩建工程补充协议) to extend the operating period of the waste water treatment plants to 17 November 2036. On 19 May 2009, Everbright Water (Jinan Licheng) Limited , Huaneng Jinan Huangtai Power Generation Company Limited and Jinan Utilities Authority entered into a supply of reusable water agreement (中水供应合同). The agreement will be valid through 25 November 2034. Currently, the reusable water plant has a designed capacity of 42,000 t/day.

光大水务(济南)有限公司 (Everbright Water (Jinan) Limited)
Everbright Water (Jinan) Limited was incorporated in the PRC in October 2006. It is principally engaged in waste water treatment operation at Jinan city, Shandong Province. On 23 June 2006, the Company and Jinan Utilities Authority entered into an agreement of a 30-years TOT project for Jinan Waste Water Treatment Project (Plant 1 and Plant 2). The two plants currently have a total designed capacity of 500,000 t/day and process mainly household waste water. On 26 March 2009, Everbright Water (Jinan) Limited and Jinan Utilities Authority entered into an agreement of a 26-years

GRANT SHERMAN

Our Ref.: B02114

BOT project for Jinan Xike Waste Water Treatment Project (Plant 4). It has a designed capacity of 30,000 t/day and process mainly household waste water. According to the Management, Everbright Water (Jinan) Limited has planned to expand the capacity of Plant 4 to 60,000 t/day.

光大水务(章丘)有限公司 (Everbright Water (Zhangqiu) Limited)
Everbright Water (Zhangqiu) Limited was incorporated in the PRC in June 2013. It is principally engaged in waste water treatment operation at Zhangqiu City, Shandong Province. On 1 August 2013, Everbright Water (Zhangqiu) Limited and Zhangqiu Utilities Authority entered into an agreement for Zhangqiu Waste Water Treatment Project under BOT basis with a concession period of 30-years. The project has a designed capacity of 30,000 t/day and processes mainly household waste water.

光大水务(新沂)有限公司 (Everbright Water (Xinyi) Limited)
Everbright Water (Xinyi) Limited was incorporated in the PRC in March 2010. It is principally engaged in construction of waste water and surface water treatment plants. According to the Management, Everbright Water (Xinyi) Limited completed two BT projects, namely Xinyi BT Waste Water Treatment Project Phase I and Xinyi BT Surface Water Project. Currently, it has no other operation but a refunding activity from the local government for the construction service provided.

GRANT SHERMAN

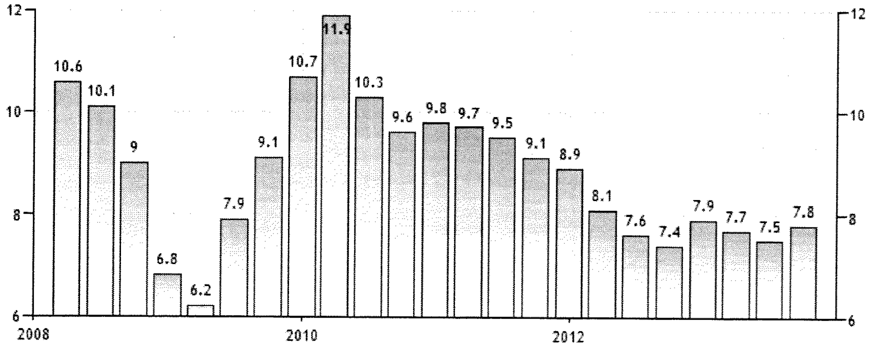
Our Ref.: B02114

INDUSTRY OVERVIEW

Macroeconomic Overview of China

China has made significant progress over the last decade in sustaining and broadening its economic development, in continuing to raise living standards, and in enhancing its status in the international community. According to the National Bureau of Statistics of China, the Gross Domestic Product of China has increased from RMB 31,404 billion to RMB 51,894 billion from 2008 to 2012. Although the growth rate has dropped below 8% in 2012, the implementation of structural reforms through rebalancing the growth model towards domestic consumption will make the economy growth sustainable in the coming years. China's GDP growth rates for 2008Q1 to 2013Q3 are shown in the following exhibit:

Exhibit 1: GDP growth rate of China from 2008Q1 to 2013Q3



Source: the National Bureau of Statistics of China, http://www.stats.gov.cn/

In the midst of the 12th Five Year Plan, the government is believed to uphold its strong economic growth, as President Xi Jinping and Premier Li Keqiang seek to put the economy on a more sustainable footing. China's GDP growth target for 2014 is expected to maintain at 7.5%.[1] The economists also predict that the government would have more confidence on targeting a steady economic growth under signs of sustained recovery on developed economies.

The Organization for Economic Co-operation and Development (OECD) states that

[1] "China to aim for 7.5 percent growth in 2014 as exports recover", http://www.reuters.com/article/2013/12/24/us-china-economy-target-idUSBRE9BN07U20131224

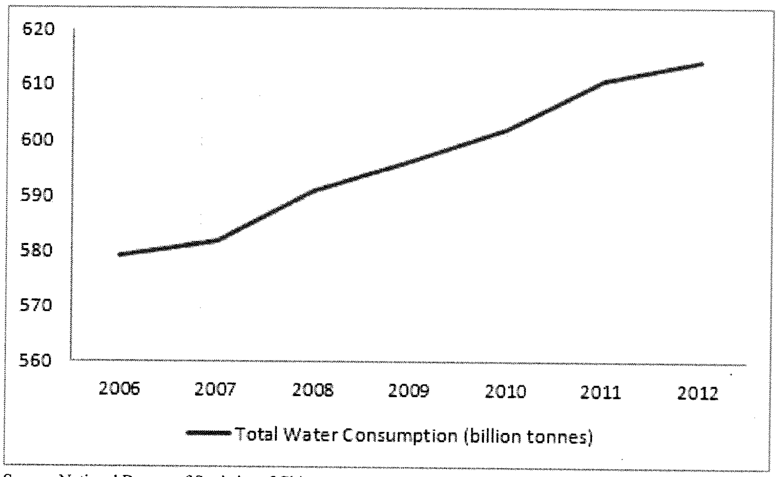
GRANT SHERMAN

Our Ref.: B02114

China real GDP growth is expected to be around 7.7% in 2014-2018.[2] External demand, which supports about 12 percent of China's GDP and absorbs some 35 percent of its industrial output, should perform better than that in 2013. Export growth could accelerate to 10 to 15 percent from around 8 percent in 2013 as the global economy continues to recover. Domestic investment should receive support from the recovery in construction and manufacturing activities. Domestic consumption should grow as nominal wages are projected to grow about 10 percent. Following the sharp rise in apartment sales in 2013, millions of new households shall stimulate the sales of cars, electronics and furniture.

Overview of Water Sector in China

Driven by population growth, urbanization and industrialization, the total consumption of water in China has been growing steadily in recent years. With the continuous economic development, demand for water resources is expected to rise accordingly. The chart below illustrates historical consumption of water in China for 2006-2012:



Source: National Bureau of Statistics of China

Water consumption in China has been mainly driven by agricultural use, followed by industrial, domestic and ecological use. In 2012, the percentages of agricultural,

[2] "Economic Outlook for Southeast Asia, China and India 2014", OECD

12

industrial, domestic and ecological use are 63%, 23%, 12% and 2% respectively.[3]

On the other hand, the water shortage problem in China is severe. Increased urbanization and industrialization in recent years have led to a growing overdraft of water usage. With a population of over 1.3 billion and 2,300 m^3 water supply per capita annually, this amounts to only a quarter of the world's average use level, ranking 121st in the world.[4]

In addition, the water pollution problem in China exacerbates the water shortage problem. Water pollution poses a threat to fresh water supply in China. Most pollutants are from waste water or discharges from chemical factories. A recently released annual environmental bulletin by China's Ministry of Environmental Protection (MEP) reveals that over 30% of the country's rivers and over 50% of groundwater are below national water quality standards. Out of the 1,200 rivers being monitored, 850 are contaminated, and over 90% of watersheds were contaminated.[4]

Waste Water Treatment Sector

In recent years, the PRC government has implemented key policies on environmental protection and energy savings as well as announced a number of guidelines and regulations to promote environmental protection. Examples include the "National Groundwater Pollution Prevention and Treatment Plan (2011-2020)", issued in October 2011, and the "China Urban Sewage Treatment and Recycling Facilities Construction Plan in 12th Five-Year", issued in May 2012.

According to the 12th Five-Year Plan, China aims to improve its rate of treating waste water to 85% in urban areas, 70% in county-level cities and counties and 30% in towns by 2015. From 2011 to 2015, the government is expected to invest RMB430 billion in the waste water treatment industry.[5] The following table shows the total sewage discharged from 2008-2012:

[3] National Bureau of Statistics of China, http://data.stats.gov.cn/
[4] "China Faces Big Water Crisis", Epoch Times,
Retrieved from: http://www.theepochtimes.com/n3/268522-china-faces-big-water-crisis/
[5] "China to boost sewage treatment industry", China Daily,
Retrieved from: http://www.chinadaily.com.cn/china/2012-05/07/content_15229708.htm

	2008	2009	2010	2011	2012
Total sewage discharged (billion tonnes)	**57.2**	**58.9**	**61.7**	**65.9**	**68.5**

Source: National Bureau of Statistics of China

Despite its national waste water treatment budget of RMB430 billion, China's present sewage treatment capacity is only at 20 percent, while about 80 percent of waste water is discharged, often untreated, directly into bodies of water.[6] The government is expected to increase its investment in waste water treatment sector and set higher hygiene standards and stricter requirements on water quality in the coming years.

Reusable Water

Intermediate water is the recycled waste water after the advanced treatment, which possesses a quality between drinking water and waste water. The intermediate water is normally discharged into the rivers. However, they could be reused in areas with lower water quality requirement such as industrial production, agricultural irrigation, resupply of groundwater, etc.[7]

Water reuse has become imperative to be one of the solutions for water shortage problem through conserving water usage, reducing the burden on urban drainage and sewage treatment, etc. The selling of recycled water also generates extra turnover for the enterprise, which can partly offset the enterprise's waste water treatment costs.

With an increasing environmental awareness of the people, the degree of acceptance for water reuse will be improved. Moreover, recent national policies also encourage and support the application of water reuse. Water reuse is expected to be an important issue in future municipal infrastructure.[7]

Sewage Source Heat Pump

Industrial and municipal domestic waste water is rich in low level heat energy, which

[6] "中国水污染现状 水污染对人类的影响", retrieved from: http://www.chachaba.com/news/zhuanti/huanjing/wuran/20121226_105235.html

[7] "生活污水中水回用技术", Dowater.com, Retrieved from: http://www.dowater.com/jishu/2013-08-19/164961.html

GRANT SHERMAN

Our Ref.: B02114

is a kind of renewable energy resources. The energy could be recovered through heat pump system. The recovered energy could then be served for heating or cooling.

Statistics show that the application of sewage source heat pump system could save 2/3 of the energy consumed by electric boiler and save 1/2 or more coal than traditional coal-fired boilers. And since the sources of sewage source heat pump maintain at a more stable temperature throughout the year, its cooling and heating efficiency is higher than that of conventional air source heat pump for about 40%, and its operating cost is only about 50-60% of ordinary centralized air-conditioning.[8]

Although the outlook of sewage source heat pump industry is bright among various types of heat pump technology, there are still lots of obstacles in applying sewage source heat pump in China. The sewage heat exchange technique is the major problem in development.

[8] "污水源热泵系统的应用前景分析", CIRN,
Retrieved from: http://www.chinairn.com/news/20131024/123441178.html

GRANT SHERMAN

Our Ref.: B02114

BASIS OF VALUATION AND ASSUMPTIONS

In this appraisal, we have appraised a 100% equity interest in the business enterprise of the Subject Company, which is achieved by summing up all the effective interests in the business enterprise of each of the Project Companies on the basis of fair market value. Fair market value is defined as "the estimated amount at which a property might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts".

We have conducted an on-site due diligence and interview of the Management from 17th to 21th February, 2014. Our investigation includes discussions with the Management in relation to the history and nature of business of the Project Companies, a study of the financial projections (the "Projections") and a review of statutory documents, historical financial information, as well as other relevant documents of the Project Companies. We have assumed that the data, information, opinions and representation provided to us by the Management in the course of the valuation are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

– The business nature and prospect of the Project Companies;

– The financial condition of the Project Companies;

– The specific economic and competitive elements affecting the Project Companies' businesses, industries and markets in which they operate;

– The nature and prospect of the environmental water business, including waste water treatment, reusable water, heat pump etc.;

– Appropriate rates of return as indicated by alternative investment opportunities of comparable magnitude, character and risk;

– The business risks of the Project Companies and inherent uncertainties involved in their operations; and

– The Projections.

Due to the changing environment in which the Project Companies are operating, a number of assumptions have to be established in order to sufficiently support our conclusion on the fair market value. The major assumptions adopted in this appraisal are:

- There will be no major changes in the existing political, legal, fiscal and economic conditions in the PRC and Hong Kong in which CEWIL and its subsidiaries (including the Project Companies) are carrying on their businesses;

- There will be no major changes in the current taxation law in the PRC and Hong Kong, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;

- Exchange rates and interest rates will not differ materially from those presently prevailing;

- The availability of finance will not be a constraint on the forecasted growth of the operations of the Project Companies;

- the Project Companies can keep abreast of the latest development of the industry such that its competitiveness and profitability can be sustained;

- The Project Companies will retain and have competent management, key personnel, and technical staff to support their ongoing operations;

- The Project Companies have obtained all necessary permits, license, certificates and approvals to carry out its business;

- Industry trends and market conditions for related industries will not deviate materially from economic forecasts;

- the Projections provided by the Management have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration;

GRANT SHERMAN

Our Ref.: B02114

- The Subject Company will stay at a targeted capital structure of 60% debt and 40% equity in the future, and its cost of debt will be the weighted average between current and expected borrowing rate of the Subject Company;

- 2.6% of loan provided by the International Finance Corporation (the "IFC") is adopted as the current borrowing rate, while a 12 Month Hong Kong Interbank Offer Rate ("HIBOR") + 3.7% is adopted as the expected borrowing rate according to the Management;

- According to the Management, the Project Companies projected to operate in excess of the designed capacity is possible to negotiate for expansion of the plants with the government, however, to be conservative, they have excluded the expansion plan from the Projection after 2017;

- According to the Management, they have analyzed the historical price adjustment for the Project Companies and applied an average growth rate of 4.51% per annum for waste water treatment and 2.95% per annum for reusable water treatment in the Projections;

- According to the Management, they have referred to several analyst reports and assumed an average growth rate of 2.95% per annum for the operating costs in the Projections;

- According to the Management, the projected capital expenditure and replacement costs are estimated based on their industry knowledge and analysis of historical figures;

- Since the operation of different phases of one project is integral, it is impossible for the government to transfer partial of the project. Therefore, when a project is planning to have an expansion, the concession period of the project is consistently assumed till the end of the concession period of its expanded phase;

- For the reusable water plant of Everbright Water (Zibo) Limited and Everbright Reusable Water (Jiangyin) Limited, the operation of the reusable water segment is different from the waste water treatment segment and there is no specified concession period restraining the operation period, as such, it is assumed that the operation will be under perpetuity;

- For Everbright Water (Zhangqiu) Limited, according to the Management, the construction of the water treatment plant will be finished in May 2014, and operation will start in June 2014; and

- According to the Management, the residential service area of Everbright Water (Zibo) Energy Development Limited will achieve an annual increment of 30% before reaching maximum capacity in 2018, and the heating and cooling services fee will have an annual increment of 2.95% accordingly.

We were furnished, for the purpose of this appraisal, with audited/ unaudited financial data as well as other records and documents which are relevant to this appraisal. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information. Any variation to these assumptions could seriously affect the fair market value of the Subject Company.

GRANT SHERMAN

Our Ref.: B02114

VALUATION METHODOLOGY

In arriving at our concluded value of the effective interest in the business enterprise of each of the Project Companies, we have considered three generally accepted approached, namely income approach, market approach and asset-based approach.

Income Approach

In the income approach, the Discounted Cash Flow ("DCF") method will be used. In this method, the value depends on the present worth of future economic benefits to be derived from the projected income. Thus, an indication of value was developed by discounting future free cash flow available for distribution to their present worth at market-derived rates of return appropriate for the risks and hazards (discount rate) associated with the comparable companies.

Market Approach

In the market approach, the Guideline Publicly Traded Company ("GPTC") method will be applied to estimate the value of the Company. In this method, the value is based on prices at which stocks of similar companies are trading in a public market. A "value measure" is usually a multiple computed by dividing the price of the guideline company as of the Appraisal Date by some relevant economic variable observed or calculated from the guideline company's financial statements.

Asset-based Approach

This approach provides an indication of the value of the business enterprise by developing a fair market value balance sheet. All of the assets and the liabilities of the business are identified and listed on the balance sheet, which is not the cost-based balance sheet that is prepared in accordance with accounting principles. The difference between the fair market value of the assets and the liabilities is an indication of the business enterprise equity value under the asset-based approach.

Selection of Valuation Approach

In our opinion, the market approach and asset-based approach are inappropriate for valuing the effective interest in the business enterprise of each of the Project

GRANT SHERMAN

Our Ref.: B02114

Companies. Firstly, the market approach relies heavily on data from public trading comparable companies that have the similar business nature and business model as the Project Companies, which in this case is difficult to compare since environmental water projects are usually unique due to their specific nature of BOT, BT or BOO, water volume, physical condition, and remaining concession periods. Secondly, the asset-based approach does not directly incorporate information about the economic benefits contributed by the Project Companies. It is based on the depreciated replacement costs of their assets. Therefore, this approach often serves as a valuation floor since most companies have greater value as a going concern than they are calculated as depreciated replacement costs of their assets.

Therefore, the income approach is the preferable approach for this appraisal. The fair market value of the effective interest in the business enterprise of each of the Project Companies was developed through the application of the income approach technique known as the DCF Method.

Discount Rate Development

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject investment instead of in available alternative investments that are comparable in terms of risk and other investment characteristics. When developing a discount rate to apply to the free cash flow from operation, a discount rate is based on a weighted average cost of capital ("WACC") developed through the application of the Capital Asset Pricing Model ("CAPM"). In determining an appropriate discount rate utilizing the WACC analysis, a study was made of short-term interest rates, the yields of long-term corporate and government bonds, and other alternative investment instruments, as well as the typical capital structure of the companies in the industry. WACC is the weighted sum of cost of equity and after tax cost of debt.

The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as nonsystematic. Under the CAPM, the appropriate rate of return is the sum of the risk-free return and the equity risk

GRANT SHERMAN

Our Ref.: B02114

premium required by investors to compensate for the systematic risk assumed with adjustment for increments for risk differentials of the Company being valued versus those of the comparative companies, which include risk adjustments for size (the "Small Capitalization Risk Premium") and other risk factors such as company specific risks in relation to the comparative companies.

Specifically, we have identified 5 listed companies that have waste water treatment business as comparable in deriving the discount rate. Therefore, these comparable companies are deemed to be appropriate in developing the discount rate of the equity interest in the Project Companies.

Following are description of the 5 selected comparable companies:

- Beijing Enterprises Water Group Limited (Stock Code: 371 HK). Beijing Enterprises Water Group Limited, through its subsidiaries, develops water treatment systems. The Group specializes in water services and environmental protection businesses, with waste water treatment as its core business segment.

- Tianjin Capital Environmental Protection Group Company Limited (Stock Code: 1065 HK). The company, through its subsidiaries, processes sewage water and constructs sewage water processing plants. The Company also operates road and toll stations in Tianjin.

- Beijing Capital Co., Ltd. (Stock Code: 600008 CH). Beijing Capital Co., Ltd. manages infrastructure facilities and operates hotels. The company manages the Jingtong Highway, invests in water treatment projects, and operates the Xindadu Hotel.

- Jiangxi Hongcheng Waterworks Co., Ltd. (Stock Code: 600461 CH). Jiangxi Hongcheng Waterworks Co., Ltd. supplies and distributes tap water in Nanchang City, Jiangxi Province.

- Shanghai Youngsun Investment Co., Ltd. (Stock Code: 900935 CH). Shanghai Youngsun Investment Co., Ltd. operates sewage treatment business in Shanghai, China.

On the other hand, we have identified the following 6 listed companies as comparable

GRANT SHERMAN

Our Ref.: B02114

in deriving the discount rate for the heat pump business of Everbright Water (Zibo) Energy Development Limited.

Following are description of the 6 selected comparable companies:

- Tianjin Capital Environmental Protection Group Company Limited (Stock Code: 1065 HK). The company, through its subsidiaries, processes sewage water and constructs sewage water processing plants. The Company also operates road and toll stations in Tianjin.
- Shenyang Huitian Thermal Power Co., Ltd (Stock Code: 000692 CH). The company operates in city centralized heat supply business and provides heating engineering services. The Company also develops and manages in real estate properties.
- Beijing Capital Co., Ltd. (Stock Code: 600008 CH). Beijing Capital Co., Ltd. manages infrastructure facilities and operates hotels. The company manages the Jingtong Highway, invests in water treatment projects, and operates the Xindadu Hotel.
- Luenmei Holding Co., Ltd. (Stock Code: 600167 CH). The company transfers land, leases properties, and provides civil engineering services. The Company also supplies heat and water as well.
- Jiangxi Hongcheng Waterworks Co., Ltd. (Stock Code: 600461 CH). Jiangxi Hongcheng Waterworks Co., Ltd. supplies and distributes tap water in Nanchang City, Jiangxi Province.
- Shanghai Youngsun Investment Co., Ltd. (Stock Code: 900935 CH). Shanghai Youngsun Investment Co., Ltd. operates sewage treatment business in Shanghai, China.

The risk-free rate associated with the effective interest in the business enterprise of each of the Project Companies is the yield on bonds issued by the government of the country in which the subject company locates. Based on adoption of the widely used CAPM model, together with additional consideration of the business risks, our analysis suggested that discount rates of 7.98% and 9.16% are appropriate for valuing the equity interest in the Project Companies of waste water treatment and heat pump business, respectively.

Company Specific Risk Premium

A company specific risk premium is considered for the sewage source heat pump business in Zibo. The company specific risks associated with the heat pump business are ones typically associated with a start-up business, mainly related to the successful establishment and implementation of its financial projection and lack of long term historical data to support the projected data in its projection. To reflect these risks, a company specific risk premium of 3% is added in developing the discount rate.

Effective Interest in Project Companies

According to the Management and the information provided, apart from Qingdao EB-VW Waste Water Treatment Company Limited, the Subject Company indirectly owns a 100% equity interest in the other Project Companies and 70% effective interest in Everbright Water (Jiangyin) Limited.

Qingdao EB-VW Waste Water Treatment Company Limited ("Qingdao EB-VW"), 60% of its registered capital is contributed by EB-VW HK Holding Company ("EB-VW") which is 60% owned by the Subject Company. The remaining 40% registered capital of Qingdao EB-VW is contributed by the PRC joint venture partner. EB-VW is fully entitled to the net profit of Qingdao EB-VW for the first 14 years of the joint venture period. From the 15th year of the joint venture period onwards, the net profit of Qingdao EB-VW is to be shared by EB-VW and the PRC joint venture partner on a 98:2 basis.

Valuation of Everbright Water (Xinyi) Limited

Since Everbright Water (Xinyi) Limited has completed two BT projects and currently has no other operation according to the Management, the only future cash inflow is the investment refund and interest income ("资金占用费") to be repaid by the Xinyi People's Government. Since the only cash inflow is payable by the local government, the PRC risk free rates are deemed to be appropriate in deriving the present value of the net cash.

GRANT SHERMAN

Our Ref.: B02114

Fair Market Value of Equity Interest in CEWIL

The calculation of the fair market value of 100% equity interest in the business enterprise of the Subject Company is set out as below:

	RMB
Equity Value of all projects	6,049,550,000
Add: NAV of CEWIL	5,040,000
Add: NAV of Qingdao Veolia Water Operating Co., Ltd.	260,000
Less: Total Debt	(430,470,000)
Fair Market Value of Equity Interest in CEWIL	5,624,380,000

Cross Check with Market Multiples

In this cross check, the Guideline Publicly Traded Company method (the "GPTC method") will be applied to derive a range of the industry multiples for reference. We have assumed all the Project Companies are in an on-going business for this cross check purpose.

The industry multiples are based on prices at which stocks or share interests of similar companies are trading in a public market. A "value measure" is usually a multiple computed by dividing the Market Value of Invested Capital ("MVIC") or price of the guideline company as of the Valuation Date by some relevant economic variable observed (such as EBITDA, EBIT, net income and book value, etc.) or calculated from the guideline company's financial statements.

Multiples from the Guideline Publicly Traded Company method (the "GPTC method")

A major requirement in applying the GPTC method is to identify companies that are comparable to the subject companies in terms of business nature and associated risks. We have obtained all the companies that are engaged in the similar business as the PRC Subsidiaries through Bloomberg, then selected the comparable companies based on relevant factors such as products, markets, and earnings etc. The waste water

GRANT SHERMAN

Our Ref.: B02114

treatment industry comparable companies have been identified and listed in the above income approach section.

In applying the GPTC method, different value measures or market multiples of the comparable companies are calculated and analyzed to induce a series of multiples that are considered representative of the industry. Then, we applied the fair market value of the effective interest in the business enterprise of each of the Project Companies derived from the income approach to calculate the relevant multiples to determine if those multiples fall into the range of the multiples of the industry. Specifically, we calculated the operational multiples of (1) MVIC-to-Revenue; (2) MVIC-to-EBITDA; (3) MVIC-to-EBIT; (4) Price-to-Net Income of comparable companies for the cross check purpose. Non-operational multiples are not considered since they are not meaningful in case the capital structure of the subject company is different from the comparable companies.

Based on the above GPTC method, the table below summarizes the multiples calculated for the comparable companies and the Subject Company:

Multiples	Industry Low End	Industry High End	Industry Average	The Subject Company
MVIC-to-Revenue	4.51	11.49	7.64	6.37
MVIC-to-EBITDA	9.39	37.58	18.04	16.69
MVIC-to-EBIT	20.08	39.55	27.72	25.98
Price-to-Net Income	26.91	65.68	40.87	42.16

GRANT SHERMAN

Our Ref.: B02114

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of the Appraisal Date, the fair market value of CEWIL is reasonably stated by the amount of **RENMINBI FIVE BILLION SIX HUNDRED AND TWENTY FOUR MILLION THREE HUNDRED AND EIGHTY THOUSANDS (RMB5,624,380,000) ONLY**.

The above conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. We have not investigated the title to or any liabilities against the property appraised.

This appraisal has been prepared solely for the purpose stated herein. This appraisal report should not be referred to, in whole or part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any party without our prior written consent.

We hereby certify that we have neither present nor prospective interests in the Company, CEWIL and its subsidiaries, or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Keith C.C. Yan, ASA
Managing Director

Jacqueline W. Huang, Ph.D, HKSFA
Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation/ Intangible Assets) of the American Society of Appraisers and he has been conducting business and intangible assets valuation in Hong Kong, the PRC and the Asian region for various purposes since 1988. Dr Jacqueline w. Huang is the regular member of the Hong Kong Society of Financial Analysts ("HKSFA") and a Ph.D in real estate economics from the University of Hong Kong. She has been conducting business valuation for various purposes since 2005 and has extensive experience in transaction services.

Analyze and report by:
Keith C.C. Yan, ASA
Jacqueline W. Huang, Ph.D, HKSFA
Cindy S.K Ho, MBA
Leo U. L. Lee, BEcon&Fin

GRANT SHERMAN

ASSUMPTIONS AND LIMITING CONDITIONS

No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the property appraised. In this appraisal, it is presumed that, unless otherwise noted, the owner's claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis.

No environmental impact study has been ordered or made. Full compliance with applicable federal, state, and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, state, or national government or private entity organization either have been or can be obtained or renewed for any use which the report covers.

The value or values presented in this report are based upon the premises outlined herein and are valid only for the purpose or purposes stated.

The appraisal date to which the conclusions and opinions expressed apply is set forth in this report. The value opinion herein rendered is based on the status of the national business economy and the purchasing power of the reporting currency as at that date.

Testimony or attendance in court or at any other hearing is not required by reason of this appraisal unless arrangements are previously made within a reasonable time in advance thereof.

Possession of this report or any copy thereof does not carry with it the right of publication. No portion of this report shall be disseminated to the public through prospectus, advertising, public relations, news, or any other means of communication without the written consent and approval of Grant Sherman Appraisal Limited.

GRANT SHERMAN

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

- My engagement in this assignment was not contingent upon developing or reporting predetermined results.

- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

- Anyone provided significant assistance to the person signing this certification is identified in the report.

Keith C.C. Yan, ASA

GRANT SHERMAN

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

- My engagement in this assignment was not contingent upon developing or reporting predetermined results.

- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice

- Anyone provided significant assistance to the person signing this certification is identified in the report.

Huang

Jacqueline W. Huang, Ph.D, HKSFA

GRANT SHERMAN

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

- My engagement in this assignment was not contingent upon developing or reporting predetermined results.

- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice.*

- Anyone provided significant assistance to the person signing this certification is identified in the report.

Cindy S. K. Ho, MBA

GRANT SHERMAN

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.

- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limited conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

- My engagement in this assignment was not contingent upon developing or reporting predetermined results.

- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice

- Anyone provided significant assistance to the person signing this certification is identified in the report.

Leo U. L. Lee, BEcon&Fin

GRANT SHERMAN

NORMAL SERVICE CONDITIONS

The services provided by Grant Sherman Appraisal Limited will be performed in accordance with professional standards. We assume, without independent verification, the accuracy of all data provided to us. Our report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare or distribute to third parties may be made without our written consent. All files, workpapers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. In the event we are subject to any liability in connection with this engagement, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings.

- END OF REPORT -

The financial effects of the Proposed Acquisition are set out below. The objective is to illustrate what the historical information might have been had the Proposed Acquisition been completed at an earlier date. However, such information is not necessarily indicative that the results of operations or the financial position as illustrated would have been attained had the Proposed Acquisition been completed at an earlier date.

The proforma financial effects of the Proposed Acquisition in this Section are based on the audited consolidated financial statements of the HanKore Group for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 and the audited consolidated financial statements of the Target Group for the financial years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014.

For the purposes of illustrating the financial effects of the Proposed Acquisition, the financial effects have been prepared based on, *inter alia*, the following assumptions and anticipated effects:

(a) the financial effects of the Proposed Acquisition on the earnings and the earnings per share of the HanKore Group for the year ended 31 December 2013 are computed assuming that the Proposed Acquisition is completed on 1 January 2013;

(b) the financial effects of the Proposed Acquisition on the NTA of the HanKore Group as at 31 December 2013 are computed assuming that the Proposed Acquisition is completed on 31 December 2013;

(c) 1,940,269,305 Consideration Shares to be allotted and issued at the Effective Issue Price of S$0.625 per Share on 31 December 2013 for the purpose of calculating the financial effects of the Proposed Acquisition on the NTA per Share of the HanKore Group, and on 1 January 2013 for the purpose of calculating the financial effects of the Proposed Acquisition on the earnings per share of the HanKore Group;

(d) the purchase consideration for the Proposed Acquisition in the form of equity to be issued by the Company to the shareholder of CEWIL has been assumed to be $0.875 per share, being the share price as at 3 November 2014, for the purpose of this transaction. This may differ from the actual cost of the Proposed Acquisition as it will depend on the share price of the Company at the date of the actual transfer of shares on the completion of the Proposed Acquisition. As the actual goodwill or gain on bargain purchase will be determined at the completion of the Proposed Acquisition, the eventual amounts could be materially different from the amount derived based on the assumption used';

(e) management is of the view that there will be expected synergies from the Proposed Acquisition. For the purpose of the preparation of the unaudited pro forma consolidation financial information, any goodwill arising from the Proposed Acquisition is assumed not to be impaired and will be tested for impairment at least annually or when there is an indication of impairment;

(f) the carrying amounts of assets and liabilities of the HanKore Group are assumed to approximate their fair values and there are no other significant assets or liabilities identified as part of the Proposed Acquisition;

(g) the professional fees and related costs relating to the Proposed Acquisition are estimated to be approximately HK$35 million;

(h) the warrants and share options of the Company outstanding as at 31 December 2013 have been exercised on 31 December 2013 for the purpose of calculating the financial effects of the Proposed Acquisition on the NTA per Share of the HanKore Group, and on 1 January 2013 for the purpose of calculating the financial effects of the Proposed Acquisition on the earnings per share of the HanKore Group;

(i) the consideration share payable to vendor of a subsidiary as at 31 December 2013 is assumed to be issued on 31 December 2013 based on the share price on 14 March 2014 for the purpose of calculating the financial effects of the Proposed Acquisition on the NTA per Share of the HanKore Group, and on 1 January 2013 for the purpose of calculating the financial effects of the Proposed Acquisition on the earnings per share of the HanKore Group;

(j) the share consolidation exercise of every ten ordinary shares of par value of HK$0.10 each into one ordinary share of par value of HK$1.00 each took place immediately prior to the completion of the Proposed Acquisition;

(k) on 24 July 2014, CEWIL had entered into agreements to acquire a 78% equity interest in Qingdao Veolia Water Operating Company Limited ("**Qingdao Veolia**") and a 40% equity interest in EB-VW HK Holding Company Limited ("**EB-VW**") from Veolia Water S.A. ("**Veolia**") for a total consideration of RMB72.7 million. Following the completion of the acquisitions, CEWIL holds a 99% equity interest in Qingdao Veolia and wholly owns EB-VW. EB-VW holds a 60% equity interest in Qingdao EB-VW Waste Water Treatment Ltd. The effects of these acquisitions are not significant to the assets, liabilities or the results of the Enlarged Group; and

(l) the audited consolidated financial statements of the Company are reported in RMB, and where relevant figures have been translated in accordance with the relevant exchange rates used in the unaudited pro forma consolidated financial information of the Enlarged Group.

Effects on issued and paid-up share capital of the Company

The financial effects of the Proposed Acquisition on the issued share capital of the Company as at 31 December 2013 are as follows:

	Number of Shares	RMB'000
Share capital as 31 December 2013	4,863,334,075	435,898
Exercise of warrants and share options outstanding as at 31 December 2013	429,220,376	33,746
Issue of contingent share consideration	180,000,000	14,152
	5,472,554,451	483,796
After the share consolidation by the Company	547,255,444	483,796
Add: Issue of the Consideration Shares	1,940,269,305	1,525,440
Share capital of the Company after issue of the Consideration Shares	2,487,524,749	2,009,236
Share capital of the Company after issue of the Consideration Shares (HK$'000)		2,555,630

Financial effects on earnings per share

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit attributable to equity holders of the Company for the year ended 31 December 2013 (HK$'000)	34,697	237,752
Number of Shares ('000)	448,656[(1)]	2,388,925
Earnings per Share (HK$)	0.08	0.10

Note:

(1) This is based on the weighted average number of the Shares in issue during the year ended 31 December 2013, adjusted for the share consolidation described above.

Effects on the NTA of the HanKore Group

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA[2] attributable to equity holders of the Company as at 31 December 2013 (HK$'000)	1,571,795	4,689,754
Number of Shares ('000)	486,333	2,487,525
NTA per Share (HK$)	3.23	1.89

Note:

(2) NTA is calculated as net assets less goodwill and intangible assets but including intangible assets arising from concession rights.

Gearing

	Before the Proposed Acquisition	After the Proposed Acquisition
Net debts as at 31 December 2013 (HK$'000)	831,841	1,327,075
Shareholders' equity as at 31 December 2013 (HK$'000)	1,720,204	5,705,773
Gearing (times)	0.48	0.23

Note:

(3) Gearing is determined based on the net debt divided by shareholders' equity. Net debt is calculated as borrowings less cash and cash equivalents less restricted bank balances.

PRIMEPARTNERS CORPORATE FINANCE PTE. LTD.
20 Cecil Street
#21-02 Equity Plaza
Singapore 049705

12 November 2014

To: The Independent Directors of HanKore Environment Tech Group Limited

Dear Sirs,

INDEPENDENT FINANCIAL ADVICE IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION IN CONNECTION WITH THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED (THE "TARGET COMPANY") FOR THE CONSIDERATION OF RMB5,811,267,353 (BEING EQUIVALENT TO S$1,212,230,370[1])

1. INTRODUCTION

On 30 December 2013 (the "**Framework Announcement Date**"), HanKore Environment Tech Group Limited ("**HanKore**" or the "**Company**") announced that it had entered into a framework agreement with the Target Company in respect of the proposed acquisition of all the investments of China Everbright International Limited ("**CEIL**") in the environmental water sector (the "**Framework Agreement**" and the "**Framework Agreement Announcement**").

On 2 June 2014 (the "**Proposed Acquisition Announcement Date**"), the Company announced that it had entered into a conditional sale and purchase agreement (the "**Acquisition Agreement**") with China Everbright Water Holdings Limited (the "**Vendor**") in respect of the proposed acquisition of the two (2) issued and paid-up ordinary share of par value US$1.00 of the Target Company, representing the entire issued and paid-up capital of the Target Company ("**Sale Shares**") by the Company from the Vendor for a consideration of RMB5,811,267,353 (being equivalent to S$1,212,230,370 based on an agreed foreign exchange rate of RMB1 : S$0.2086) for the purchase of the Sale Shares ("**Consideration**") ("**Proposed Acquisition**" and the "**Proposed Acquisition Announcement**") to be satisfied by the proposed allotment and issue of 1,940,269,305 new ordinary shares ("**Shares**") in the capital of the Company ("**Consideration Shares**") to the Vendor at the nominal issue price ("**Nominal Issue Price**") of S$0.703 for each Consideration Share in satisfaction of the Consideration. The Nominal Issue Price of S$0.703 is subject to adjustments according to the adjustment mechanism which is elucidated in section 2.3 of the "Letter to Shareholders from the Directors of HanKore" in the Circular ("**HanKore Letter**")

[1] Based on an agreed foreign exchange rate of RMB1 : S$0.2086.

Pursuant to the terms of the Acquisition Agreement, the completion of the Proposed Acquisition under the Acquisition Agreement ("**Completion**") shall take place on a date falling 10 business days after the date on which the last of the outstanding conditions precedent set out in section 2.4 of the HanKore Letter have been fulfilled or waived by the Company and/or the Vendor (as the case may be), or such other date as the Vendor and the Company may mutually agree in writing (the "**Completion Date**").

The Proposed Acquisition, if it proceeds to Completion, will result in a change of control of the Company and would constitute a "Very Substantial Acquisition" or a "Reverse Takeover" as defined under Chapter 10 of the listing manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), as amended from time to time ("**Listing Manual**"), and will be subject to, *inter alia*, the approval of the shareholders of the Company ("**Shareholders**") at a special general meeting ("**SGM**").

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor will hold 1,940,269,305 Shares, representing approximately 78.0% of the enlarged issued share capital of the Company after completion of the Proposed Transactions (as defined in the Circular) on a fully diluted basis ("**Enlarged Share Capital**"). In such event, the Vendor and the parties acting in concert with the Vendor (collectively, the **Concert Parties Group**") will be required under the Code to make a mandatory general offer for the Shares not already held by it pursuant to Rule 14.1 of the Singapore Code on Take-overs and Mergers (the "**Code**").

It is a condition precedent to the Proposed Acquisition that the Securities Industry Council ("**SIC**") grants a waiver to the Vendor of its obligation to make a mandatory general offer under Rule 14 of the Code for the Shares not held by the Concert Parties Group, and from having to comply with the requirements of Rule 14 of the Code upon Completion and the allotment and issue of the Consideration Shares to the Vendor and if such waiver is subject to any condition or restriction imposed by the SIC, such condition and/or restriction being reasonably acceptable to the Vendor and the Company. The SIC had, on 28 May 2014, waived the requirement for the Vendor to make a general offer for Shares not already owned or controlled by the Concert Parties Group under Rule 14.1 of the Code in the event, the Concert Parties Group increase their shareholdings in the Company to 79.21% based on its enlarged issued share capital as a result of the Vendor acquiring the Consideration Shares under the Proposed Acquisition, subject to, *inter alia*, a whitewash resolution being approved by a majority of the Shareholders in a general meeting of the Company in accordance with the requirements set out in Appendix 1 of the Code in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendor who would incur an obligation to make a mandatory takeover offer under Rule 14 of the Code for all of the Shares not already owned by the Concert Parties Group as a result of the Proposed Acquisition, provided that the Vendor and any persons who are not Shareholders who are independent of the Concert Parties Group ("**Independent Shareholders**") abstain from voting on such whitewash resolution (the "**Proposed Whitewash Resolution**") and an independent financial adviser ("**IFA**") being appointed by the Company to advise the directors of the Company for the time being ("**Directors**") who are considered independent for the purposes of making the recommendation to Independent Shareholders in relation to the Proposed Whitewash Resolution ("**Independent Directors**") in respect of the Proposed Whitewash Resolution.

PrimePartners Corporate Finance Pte. Ltd. ("**PPCF**") has been appointed by the Company as the IFA to advise the Independent Directors on whether the Proposed Acquisition and the Proposed Whitewash Resolution is fair and reasonable, and not prejudicial to the interests of the Independent Shareholders. This letter sets out, *inter alia*, our views and evaluation of the Whitewash Resolution and our opinion thereon, and will form part of the Circular dated 12 November issued to the Shareholders.

Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meaning herein.

2. TERMS OF REFERENCE

We have been appointed as the IFA to advise the Independent Directors on the Proposed Acquisition and the Proposed Whitewash Resolution.

We were neither a party to the negotiations entered into by the Company in relation to the Proposed Acquisition and the Proposed Whitewash Resolution, nor were we involved in the deliberations leading up to the decision of the Directors to enter into the Proposed Acquisition and the Proposed Whitewash Resolution. We do not, by this letter, warrant the merits of the Proposed Acquisition and the Proposed Whitewash Resolution other than to express a view on whether: (i) the Proposed Acquisition is fair and reasonable and is not prejudicial to the interests of the Independent Shareholders; and (ii) the Proposed Whitewash Resolution is not prejudicial to the interests of the Independent Shareholders when considered in the context of the Proposed Acquisition and the Proposed Whitewash Resolution.

Our terms of reference do not require us to evaluate or comment on the legal, commercial, financial or strategic merits of the Proposed Acquisition and the Proposed Whitewash Resolution. Such evaluations and comments are and remain the sole responsibility of the Directors, although we may draw upon their views or make such comments in respect thereof to the extent deemed necessary or appropriate by us in arriving at our opinion as set out in this letter.

In the course of our evaluation of the Proposed Acquisition and the Proposed Whitewash Resolution, we have relied on, and assumed without independent verification, the accuracy and completeness of published information relating to the Company. We have also relied on information provided and representations made by the Directors and the management of the Company, the Company's solicitors and auditors. We have not independently verified such information or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for, the accuracy, completeness or adequacy of such information, representation or assurance. We have nevertheless made such enquiries and exercised our judgement as we deemed necessary and have found no reason to doubt the reliability of the information.

We have relied upon the assurances of the Directors that, upon making all reasonable inquiries and to the best of their respective knowledge and belief, all material information in connection with the Proposed Acquisition and the Proposed Whitewash Resolution, the

Company and its subsidiaries (collectively, the "**HanKore Group**"), the Target Company and its subsidiaries (collectively, the "**Target Group**") and the HanKore Group and the Target Group (collectively, the "**Enlarged Group**") which relate to the Proposed Whitewash Resolution has been disclosed to us, that such information is true and complete in all material aspects and that there are no material facts the omission of which would cause any information disclosed to us in relation to the Proposed Acquisition and the Proposed Whitewash Resolution, the HanKore Group, the Target Group and the Enlarged Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors collectively and individually accept responsibility accordingly.

In the course of our evaluation of the Proposed Acquisition and the Proposed Whitewash Resolution, we have not received or relied upon any financial projections or forecasts in respect of the HanKore Group, the Target Group and/or the Enlarged Group. We will not be required to express, and we do not express, any view on the growth prospects and earnings potential of the HanKore Group, the Target Group and/or the Enlarged Group in connection with our opinion in this letter.

We have not made any independent evaluation or appraisal of the assets and liabilities of the HanKore Group and/or the Target Group and have made reference to the information provided to us, including *inter alia*, the independent valuation reports prepared by American Appraisal and Grant Sherman (collectively, the "**Independent Valuers**") ("**Independent Valuation Reports**").

Our opinion as set out in this letter is based upon market, economic, industry, monetary and other conditions in effect on, and the information provided to us as of the Latest Practicable Date. Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to their consideration of the Proposed Acquisition and/or the Proposed Whitewash Resolution which may be released by the Company after the Latest Practicable Date.

In rendering our opinion, we did not have regard to the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we would advise the Independent Directors to recommend that any individual Shareholder who may require specific advice in relation to his investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than our letter as set out in the Circular). Accordingly, we take no responsibility for and express no views, express or implied, on the contents of the Circular (other than our letter as set out in the Circular).

Our opinion on whether the Proposed Acquisition and the Proposed Whitewash Resolution is fair and reasonable, and not prejudicial to the interests of the Independent Shareholders should be considered in the context of the entirety of this letter and the Circular.

3. INFORMATION ON THE HANKORE GROUP

The HanKore Group is an international group that invests and operates in the water environment sector. Its headquarters is located in Beijing, China. Listed on the Main Board of the Singapore Stock Exchange since February 2004, the Company's core businesses comprise wastewater treatment, water recycling, water supply and sludge treatment.

The HanKore Group has invested in a total of 11 large-scale Build-Operate-Transfer ("**BOT**") and Transfer-Operate-Transfer ("**TOT**") municipal and industrial water treatment projects. These projects are located in several of China's most populated regions including Beijing and the provinces of Jiangsu, Shandong, Shanxi and Henan. The current water portfolio of the HanKore Group has a total designed treatment capacity of 1.57 million tonnes per day.

Information on the HanKore Group is also available from its website at **www.hankore.com/en/**.

4. INFORMATION ON THE VENDOR AND THE TARGET GROUP

The information on the Vendor and the Target Group as set out below in italics has been extracted from the Circular. Unless otherwise defined, all terms and expressions used in the extract below shall have the same meanings as those defined in the Circular.

4.1 Information on the Vendor

"*The Vendor is an investment holding company incorporated in the British Virgin Islands and wholly-owned indirectly by CEIL. CEIL is an investment holding company incorporated in Hong Kong and listed on the Main Board of the HKSE (SEHK: 257). CEIL and its subsidiaries are primarily engaged in the investment, construction, operation and management of environment protection projects in the PRC. Please refer to the Target Letter for more details on the Vendor.*"

4.2 Information on the Target Group

"*The Target Company is a company incorporated in the British Virgin Islands and together with its subsidiaries are principally involved in the environmental water business, which includes wastewater treatment, reusable water projects and wastewater heat pump projects, focused in the regions of Taihu Lake and Bohai Bay area of the PRC.*

*The Target Group operates a portfolio of large scale and diversified waste-water treatment projects. As at the Latest Practicable Date, the Target Group had 21 waste-water treatment projects, four reusable water projects, two wastewater source heat pump projects and two Build-Transfer ("**BT**") water projects. The projects are designed with an annual wastewater treatment capacity of approximately 667,950,000 m^3 and provide annual reusable water of 22,484,000 m^3, and its wastewater source heat pump project covers a service area of 305,000 m^2. 14 of the wastewater treatment projects achieved Grade 1 Class A water discharge standard, the highest standard imposed in the*

PRC, enabling the Target Group to command higher wastewater treatment fees compared to projects with lower discharge grades. The Target Group also consists of 2 completed water BT projects and has successfully locked in the future profits arising from these 2 projects.

The wastewater treatment projects operated by the Target Group are concentrated in the provinces of Shandong and Jiangsu which offer strong local economies. The wastewater treatment fees increased steadily across the wastewater treatment projects over the years. Furthermore, strong demand has resulted in wastewater treatment volume growth outstripping the initial forecasts. The utilisation rate of the Target Group remained high in 2013, and the Target Group is making plans to expand several plants which are nearing or exceeding the design capacities.

The Target Group's revenue and net profit attributable to equity shareholders grew at a CAGR of 22.9% and 14.6% respectively for the past 2 years, and achieved a revenue and net profit of HK$1,291 million and HK$266 million in FY2013 respectively.

Further information on the Target Group is set out in the Letter."

5. OVERVIEW OF THE PROPOSED ACQUISITION

The following has been extracted from section 2.1 to 2.4 of the HanKore Letter and has been reproduced in italics below. Shareholders are advised to read the extract below:

"2.1 Rationale for the Proposed Acquisition

The Company and the Target Company share a common vision to become one of the largest water treatment companies in the PRC. The Proposed Acquisition represents a major step towards achieving this shared vision. The Board believes that the Proposed Acquisition will be beneficial to and is in the best interests of the Company and the Shareholders for the following reasons:

(a) ***Upon Completion, the Company will become one of the largest water treatment companies in the PRC***

Following the Proposed Acquisition, CEIL intends to utilise the Company as its sole platform for its water treatment business. However, there may be situations where CEIL may hold water treatment business assets outside the HanKore Group. Please refer to Section 7 of the Target Letter titled "Conflicts of Interest" for more information. Upon Completion, the Company will own a total of 32 wastewater treatment plants and 4 reusable water projects (with a total designed capacity of approximately 3.4 million tonnes per day), 4 reusable water projects (with a designed capacity of 62,000 tonnes per day), 2 wastewater source heat pump projects which service an area covering 305,000 m^2, 2 completed Build-Transfer projects (with a designed capacity of 110,000 *tonnes per day), 56km pipeline network and 10 pump stations (investment scale equivalent to 250,000 tonnes per day), and will emerge as one of the largest and most established water treatment companies in the PRC.*

Asset	***Company***	***Target Group***	***Total***
Wastewater treatment and reusable water projects			
Number of plants	*11*	*25*	*36*
Designed capacity ('000 tonnes/day)	*1,570*	*1,837*	*3,407*
Wastewater source heat pump project			
Service area ('000 m^2)	*—*	*305*	*305*
Others			
Completed Build-Transfer projects ('000 tonnes/day)	*—*	*110 (2 projects)*	*110 (2 projects)*
56km pipeline network and 10 pump stations (equivalent of '000 tonnes/day)	*250*	*—*	*250*

(b) ***The Proposed Acquisition would enhance the financial strength of the Company and would allow the Company to leverage on CEIL's and the Target Company's access to a larger pool of debt capital at lower cost***

CEIL and the Target Company have access to a lower cost of debt funding vis-à-vis the Company. Following completion the Proposed Acquisition, the Vendor will become the major shareholder of the Company. The Board believes that this will allow the Company to gain access to a larger pool of debt capital at lower cost and therefore enhance returns on current and future projects.

(c) ***The Proposed Acquisition would increase investor confidence and institutional investor interest, boosting the Company's ability to tap the equity capital markets for capital (if required)***

The Proposed Acquisition is expected to boost investor confidence in the Company and attract greater interest from institutional investors, as (i) it would increase the market capitalization of the Company, a result of significant increase in terms of its scale of operations, earnings and assets; and (ii) the Proposed Acquisition would cause the Vendor, a PRC State-Owned Enterprise, to emerge as the Company's major shareholder. With greater investor confidence and stronger institutional interest, the Company's ability to tap the equity capital markets for capital (if required) is expected to be enhanced.

(d) ***The Proposed Acquisition would strengthen the track record and financial strength of the Company which would consequently raise the competitiveness of the Company vis-à-vis other wastewater players when bidding for public tenders***

As the output of wastewater treatment projects directly impacts the living standards of the local population, local governments must have strong assurance that the selected bidder has the requisites to execute the project successfully. One of the most tangible and concrete ways of providing such assurance is through a strong track record and robust financial strength. The Proposed Acquisition would strengthen the track record and financial strength of the Company, which would consequently raise the competitiveness of the Company during public tenders for future projects vis-à-vis other wastewater players.

(e) ***The Proposed Acquisition would place the Company in a better position to pursue attractive business growth opportunities***

Taking into account the factors listed above - a stronger combined track record, enhanced financial strength and better access to debt/equity capital - the Proposed Acquisition would place the Company in a better position to participate in the consolidation of small to medium size water treatment companies in the PRC, to take on larger projects, and attract more strategic partners in new deals and/or joint ventures.

2.2 Valuation of the Target Group and Target Group's properties

Pursuant to Rule 1015(3)(a) of the Listing Manual, a competent and independent valuer is required to be appointed to value the incoming business.

American Appraisal and Grant Sherman were commissioned respectively by the Company and the Vendor to undertake a valuation of the Target Company on a stand-alone basis (i.e. it does not factor in any benefits that the Company may derive as a result of the Proposed Acquisition). The stand-alone valuations performed separately by American Appraisal and Grant Sherman indicate that the equity value of the Target Company is approximately RMB5.4 billion (being approximately S$1.1 billion) and RMB5.6 billion (being approximately S$1.2 billion) respectively. Please refer to the Independent Valuation Reports annexed in Appendix A titled "Summary of Independent Valuation Report by American Appraisal China Limited" and Appendix B titled "Independent Valuation Report by Grant Sherman Appraisal Limited" to this Circular. Shareholders are advised to read the Independent Valuation Reports carefully.

2.3 Consideration

*The consideration for the purchase of the Sale Share ("**Consideration**") shall be RMB5,811,267,353 (being equivalent to S$1,212,230,370, based on an agreed foreign exhange rate of RMB1 : S$0.2086 as at 31 December 2013), being the sum agreed between the Company and the Vendor.*

The Consideration shall be satisfied by the allotment and issue by the Company to the Vendor of such number of new Shares as determined in accordance with the following formula:

CS = C ÷ (I x A)

where:

CS *is the aggregate number of Consideration Shares (fractions to be disregarded);*

C *is the Consideration;*

A *is a fraction, the numerator of which is 4,863,334,075 (being the total number of Shares as at 31 December 2013) and the denominator of which is 5,472,254,430 (being the total number of Shares on the date of the Acquisition Agreement on a fully diluted basis taking into account the Share consolidation of the Company after 31 December 2013); and*

I *S$0.703,*

accordingly, CS = 1,940,269,305.

*Shareholders should note that "I" as referred to in the formula above refers to the nominal issue price (the "**Nominal Issue Price**") of S$0.703 as agreed in the Framework Agreement, after adjusting for the Company's 10-to-1 Share consolidation on 27 May 2014. The Nominal Issue Price was determined with reference to the volume weighted average price of the Shares traded on the SGX-ST for the preceding 90 trading days ending on the date of the Framework Agreement ("**90-Day VWAP**"), and is not the same as the Effective Issue Price which was determined using the formula above pursuant to the Acquisition Agreement. The Nominal Issue Price is not at a discount or premium to the 90-Day VWAP, and the Effective Issue Price of S$0.625 (rounded to 3 decimal places) can be calculated by dividing the Consideration by the aggregate number of Consideration Shares.*

*Shareholders should note that there may have been significant speculative trading activities in the Shares which would otherwise have distorted the Share price and trading volume during the timeframe commencing from 30 December 2013, the date the Framework Agreement was announced (the "**Framework Agreement Announcement Date**"), leading up to 2 June 2014, the date the Proposed Acquisition was announced (the "**Proposed Acquisition Announcement Date**"). The trading activity during this time may not be an accurate reflection of the normal historical performance.*

As such, a more accurate reference point to determine the premium/ discount implied by the Effective Issue Price should be the Framework Agreement Announcement Date given that the Effective Issue Price was derived from multiplying the Nominal Issue Price with the anti-dilution factor "A" as set out in the formula above, and that was the first instance where preliminary details of the Proposed Acquisition were announced. This is also consistent with the approach by the IFA as set out in their letter in Appendix D to this Circular.

Shareholders should also note the following information in respect of the Effective Issue Price vis-à-vis the market prices of the Shares prior to the Framework Agreement Announcement Date:

- *Over the last one (1) year prior and up to the Framework Agreement Announcement Date, the Shares have consistently traded at closing prices below the Effective Issue Price of S$0.625 per share, save for 71 market days between 17 September 2013 to 30 December 2013 out of a total of 249 market days leading up to the Framework Agreement Announcement Date.*

- *The Effective Issue Price of S$0.625 per Share is within the range of the daily closing price of the Shares over the 1-year period up to the last trading day prior to the Framework Agreement Announcement Date, which is between a low of S$0.380 per Share and a high of S$0.850 per Share.*

Please refer to the IFA Letter annexed in Appendix D of the Circular for more details.

The Consideration Shares, when allotted and issued to the Vendor, will be free from encumbrances and will rank pari passu in all respects with the existing Shares as at the date of issuance of the Consideration Shares."

We note that the above formula includes an adjustment mechanism which was applied to determine the number of new Shares to be issued in satisfaction of the Consideration, which will take into account the total number of Shares outstanding in the issued share capital of the Company on a fully diluted basis, assuming the conversion of all outstanding warrants and share options on the date of the Acquisition Agreement. Accordingly the effective issue price for each Consideration Share calculated in accordance with the Acquisition Agreement and as described in section 2.3 of the HanKore Letter would be S$0.625, rounded to 3 decimal places ("**Effective Issue Price**") as at the Latest Practicable Date. Notwithstanding the adjustment of the Nominal Issue Price and Consideration Shares issued, it should be noted that the shareholding proportions accredited to both HanKore's existing Shareholders and the Vendor remain unchanged on a fully diluted basis.

"The Consideration was agreed on a willing-buyer and willing-seller basis after arms' length negotiations. In arriving at the Consideration, the Company has considered, inter alia, (i) the respective and combined market positions of the Company and the Target Company; (ii) the quality of the respective assets and business conditions of the Company and the Target Company; (iii) the respective financial positions of the Company and the Target Company; (iv) the future benefits and synergies expected to be created as a result of the Proposed Acquisition as set out in Section 2.1 (Rationale for the Proposed Acquisition) above; and (v) current prevailing industry and market conditions, and also with reference to the valuations of the Target Company by the Independent Valuers.

The Consideration Shares will represent approximately 78% of the Enlarged Share Capital immediately after Completion.

2.4 Conditions Precedent

*Completion of the Proposed Acquisition under the Acquisition Agreement shall, unless waived, be conditional upon, inter alia (“**Conditions Precedent**”):*

*(a) **Company Shareholders’ Approval.** The approval of the Shareholders at the SGM having been obtained for:*

(i) the Proposed Acquisition;

(ii) the allotment and issue of the Consideration Shares by the Company to the Vendor;

(iii) the change of name of the Company to “China Everbright Water Limited (中国光大水务有限公司)” subject to and with effect from Completion;

(iv) the appointment of not less than four (4) Directors nominated by the Vendor on the Board with effect from Completion; and

(v) the Proposed Whitewash Resolution.

*(b) **Practice Note 15 Submission.** In the event Practice Note 15 of the listing rules of HKSE applies to the Proposed Acquisition (as determined by HKSE), HKSE’s approval on the Practice Note 15 submission to be made by CEIL in connection with the Proposed Acquisition and HKSE’s waiver of the requirement to provide assured entitlement under Practice Note 15 (or confirmation of its acceptance of other alternative proposal acceptable to CEIL) having been obtained.*

*(c) **SIC Waiver.** The grant by the SIC of a waiver (the “**SIC Waiver**”) to the Vendor and the Concert Parties Group, of their obligation to make a mandatory offer under Rule 14 of the Code for the Shares not held by the Vendor and its concert parties, and from having to comply with the requirements of Rule 14 of the Code upon Completion and the allotment and issue of the Consideration Shares to the Vendor and if such waiver is subject to any condition or restriction imposed by the SIC, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.*

*(d) **SGX-ST Approval for the Proposed Acquisition.** The approval of the SGX-ST for the Proposed Acquisition having been obtained where necessary, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.*

*(e) **SGX-ST Approval for Listing and Quotation.** The approval of the SGX-ST and the issuance of a listing and quotation notice from the SGX-ST for the admission of the Consideration Shares to the Official List of the SGX-ST, and*

the dealing and quotation of such shares on the Main Board of the SGX-ST upon the allotment and issue of such shares, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company.

(f) ***Governmental Approvals for the Acquisition.*** *The licences, authorisations, orders, grants, confirmations, permissions, registrations, waivers, exemptions and other approvals necessary or desirable for or in respect of the Proposed Acquisition having been obtained by the Target Group Companies and the HanKore Group Companies from the appropriate governments, governmental, supranational or trade agencies, courts or other regulatory bodies on terms reasonably satisfactory to the Company and the Vendor (as the case may be), and if such approval is subject to any condition or restriction, such condition and/or restriction being reasonably acceptable to the Company and the Vendor (as the case may be).*

(g) ***All Other Consents and Approvals.*** *The HanKore Group Companies and the Target Group Companies having obtained all other necessary consents, approvals and written waivers (including for change of control) from all relevant third parties for the Proposed Acquisition (including in relation to the Company's cross currency swap contract with DBS Bank Ltd.).*

(h) ***CEIL Shareholders' Approval.*** *The approval of the shareholders of CEIL at a special general meeting for the Proposed Acquisition (if required).*

(i) ***No Breach.*** *The Proposed Acquisition not being prohibited by and will not result in a breach of, any statute, order, rule, regulation, directive, guideline or request promulgated by, or any judgement or decree of, any legislative, executive, judicial or regulatory body or authority in Singapore, Hong Kong, the PRC or any other jurisdiction affecting any HanKore Group Company, Target Group Company or the Vendor.*

(j) ***No Adverse Change.*** *There being no changes to the business, financial conditions or operations of any HanKore Group Company or Target Group Company (as the case may be) since the date of the Acquisition Agreement that would in the reasonable opinion of the Vendor or the Company (as the case may be) be likely to have an adverse effect on the turnover, profitability, financial position or prospects of HanKore Group Company or Target Group Company (as the case may be).*

(k) ***Financial Statements.*** *The Vendor being satisfied with the presentation of, and the financial condition of HanKore Group as represented by the consolidated balance sheet and consolidated profit and loss account of HanKore Group for the period ended 30 June 2014 to be prepared for purposes of inclusion in the shareholder circular in respect of the Proposed Acquisition and to be delivered to the Vendor prior to Completion and the audited version of the restated consolidated balance sheet, restated consolidated profit and loss account and restated consolidated cash flow statement of HanKore Group for the period ended 31 December 2013.*

(l) ***Discharge of Encumbrance.*** *The charge over the Sale Share in favour of the International Finance Corporation being discharged in full.*

(m) ***Consent from Bondholders.*** *The approval of the bondholders under the bonds issued by the Company to the Proposed Acquisition on terms satisfactory to the Vendor.*

(n) ***No outstanding rights.*** *There being no outstanding options, warrants (save for those in issue as of the date of the Acquisition Agreement[1]), rights (including conversion or pre-emptive rights) or agreements for the subscription or purchase of any equity security of any HanKore Group Company or any securities convertible into or ultimately exchangeable or exercisable for any equity securities of any HanKore Group Company.*

(o) ***Warranties.*** *The representations, warranties and undertakings made by the Vendor and the Company respectively under the Acquisition Agreement remaining true, accurate and correct in all respects.*

(p) ***Restructuring.*** *China Everbright Environmental Protection Holdings Limited ("**CEEPH**") shall transfer the Sale Shares to the Vendor and the register of members of the Target Company has been updated on or before 30 June 2014 (or such other date as may be mutually agreed by the Company and the Vendor in writing) to reflect the transfer of the Sale Shares to the Vendor.*

As at the Latest Practicable Date, the Vendor has confirmed that CEIL has obtained HKSE's approval on its Practice Note 15 submission in connection with the Proposed Acquisition and HKSE's waiver of the requirement to provide assured entitlement under Practice Note 15. In addition, the approval of the shareholders of CEIL at a special general meeting for the Proposed Acquisition is not required. Further, DBS Bank Ltd. has by way of a letter of acknowledgment dated 18 August 2014, inter alia, granted its consent and approval for the Proposed Acquisition and waivers of terms which would otherwise constitute a default (as a consequence of, and only to the extent in connection with, the Proposed Acquisition) in relation to the Company's cross-currency swap contract.

Save as disclosed in this Section and the Conditions Precedent described in (c), (k), (l) and (p) which have been fulfilled, all the other Conditions Precedent are pending fulfilment as at the Latest Practicable Date. An announcement will be made by the Company to notify Shareholders of the fulfilment of the Conditions Precedent in due course. The approval-in-principle for the Proposed Acquisition was obtained from the SGX-ST on 10 November 2014.

We wish to highlight that we were neither a party to the negotiations entered into by the Company in relation to the Proposed Acquisition, nor were we involved in the deliberations leading up to the decision of the Directors to enter into the Proposed Acquisition, and we do not warrant the merits of the Proposed Acquisition.

(1) As at the date of the Acquisition Agreement, 263,462 warrants were outstanding. Please refer to Section 6.2 titled "Share Capital" of the HanKore Letter.

6. THE PROPOSED WHITEWASH RESOLUTION

6.1 General offer requirement under the Code

As at the Latest Practicable Date, the Vendor and the Concert Parties Group do not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of any Shares in the Company.

Pursuant to Rule 14.1 of the Code, where (a) any person acquires (whether by a series of transactions over a period of time or not) Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of the Company; or (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights of the Company, or any person acting in concert with him, acquires in any six (6) months additional Shares carrying more than 1.0% of the voting rights of the Company, such person and his concert parties will be required to make a mandatory general offer for all the Shares not held by them.

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor will hold 1,940,269,305 Shares, representing approximately 78.0% of the Enlarged Share Capital. In such event, the Vendor will be required under the Code to make a mandatory general offer for the Shares not already held by it pursuant to Rule 14.1 of the Code unless such obligation is waived by the SIC and the Proposed Whitewash Resolution is approved by the Independent Shareholders at the SGM.

Completion shall be conditional upon, *inter alia*:

(i) the grant by the SIC of the SIC Waiver; and

(ii) the approval of the majority of the Independent Shareholders being obtained at the SGM for the Proposed Whitewash Resolution.

Shareholders should note that the passing of the ordinary resolution in relation to the Proposed Acquisition is conditional upon the Proposed Whitewash Resolution being approved by Independent Shareholders, as the Proposed Whitewash Resolution is a condition precedent in the Acquisition Agreement. If the approval is not given for the Proposed Acquisition or the Proposed Whitewash Resolution, neither will be proceeded on.

6.2 SIC Waiver

The SIC had, on 28 May 2014, waived the requirement for the Vendor to make a general offer for the Company under Rule 14.1 of the Code in the event, the Concert Parties Group increase their shareholdings in the Company to 79.21% based on its enlarged issued share capital as a result of the Vendor acquiring the Consideration Shares under the Proposed Acquisition, subject to the following conditions ("**SIC Conditions**"):

(a) a majority of holders of voting rights of the Company present and voting approve at a general meeting held before Completion, the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Concert Parties Group;

(b) the Proposed Whitewash Resolution is separate from other resolutions;

(c) the Concert Parties Group as well as parties not independent thereof, abstain from voting on the Proposed Whitewash Resolution;

(d) the Concert Parties Group did not acquire or are not to acquire any shares or instruments convertible into and options in respect of the Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of new Shares which have been disclosed in the Circular):

    (i) during the period between the announcement of the Proposed Acquisition and the date Shareholders' approval is obtained for the Proposed Whitewash Resolution; and

    (ii) in the six (6) months prior to the announcement of the Proposed Acquisition, but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Proposed Acquisition;

(e) the Company appoints an independent financial adviser to advise the Independent Directors on the Proposed Whitewash Resolution;

(f) the Company sets out clearly in the Circular:

    (i) details of the Proposed Acquisition, including the issue of the Consideration Shares to the Vendor;

    (ii) the possible dilution effect to existing holders of voting rights of the Vendor's acquisition of the Consideration Shares under the Proposed Acquisition;

    (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Concert Parties Group as at the Latest Practicable Date;

    (iv) the number and percentage of voting rights to be issued to the Vendor as a result of their acquisition of the Consideration Shares under the Proposed Acquisition;

    (v) that the Proposed Acquisition will result in the Concert Parties Group holding Shares carrying over 49% of the voting rights of the Company based on its enlarged issued capital, and the fact that the Concert Parties Group will be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer; and

    (vi) that Shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to a general offer from the Vendor at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer;

(g) the Circular states that the waiver granted by the SIC to the Vendor from the requirement to make a general offer under Rule 14 of the Code is subject to the conditions stated at Section 3.2(a) to (f) above;

(h) the Company obtains the SIC's approval in advance for those parts of the Circular that refer to the Proposed Whitewash Resolution; and

(i) to rely on the Proposed Whitewash Resolution, the Proposed Acquisition must be completed within three (3) months of the date of approval of the Proposed Whitewash Resolution.

6.3 Voting

Independent Shareholders are requested to vote on a poll on the Proposed Whitewash Resolution set out as an ordinary resolution in the Notice of SGM.

Independent Shareholders should note that:

(a) approval of the Proposed Whitewash Resolution is a condition precedent to Completion. If the Independent Shareholders do not vote in favour of the Proposed Whitewash Resolution, the Proposed Acquisition will not take place;

(b) the Proposed Acquisition could result in the Concert Parties Group holding Shares carrying over 49% of the voting rights of the Company, and the fact that the Vendor will as a result be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer;

(c) by voting in favour of the Proposed Whitewash Resolution, Independent Shareholders are waiving their rights to a general offer from the Concert Parties Group at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer; and

(d) by voting for the Proposed Whitewash Resolution, the Independent Shareholders could be forgoing the opportunity to receive a general offer from another person who may be discouraged from making a general offer in view of the potential dilution effect of the issue of the Consideration Shares.

7. EVALUATION OF THE PROPOSED ACQUISITION AND THE PROPOSED WHITEWASH RESOLUTION

In our evaluation of the Proposed Acquisition and the Proposed Whitewash Resolution, we have considered the following factors which we consider to be pertinent and have a significant bearing on our assessment:

(i) Rationale for the Proposed Acquisition;

(ii) Financial performance and condition of the HanKore Group;

(iii) Financial assessment of the Effective Issue Price;

(iv) Financial assessment of the Consideration;

(v) Financial effects of the Proposed Acquisition on the HanKore Group;

(vi) Past substantial acquisitions of investments involving the Shares of the Company;

(vii) Acquisition of interests in additional water assets by the Target Company; and

(viii) Other relevant considerations.

7.1 Rationale for the Proposed Acquisition

Please refer to the rationale of the Proposed Acquisition which has been set out in section 2.1 of the HanKore Letter and paragraph 5 of this letter.

7.2 Financial performance and condition of the HanKore Group

We note from the Proposed Acquisition Announcement that the consolidated financial statements of the Target Group for the financial years ended 31 December ("**FY**") 2011, 2012 and 2013 have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). As such, the HanKore Group has also prepared audited consolidated financial statements for the years ended 31 December 2011, 2012, 2013 and the six (6) months ended 30 June 2014 ("**6M2014**") (the "**Non-Statutory Annual Report**") in accordance with the IFRS for the preparation of the unaudited proforma financial information of the Enlarged Group. The change is to align the accounting standards applied by the HanKore Group with the accounting standards adopted by the Target Group.

For the purpose of evaluating the financial performance and condition of the HanKore Group, we are of the opinion that the presentation of the restated financial results of the HanKore Group would provide the Independent Shareholders with a more accurate understanding and meaningful basis of comparison vis-à-vis the financial results of the Target Group as both sets of financial statements are prepared in accordance with IFRS in relation to the same calendar period.

Accordingly, a summary of the restated financial results of the HanKore Group for FY2011, FY2012 and FY2013 and the 6M2014 is set out in Exhibit 1 below. The following summary financial information should be read in conjunction with the full text of the Non-Statutory Annual Report as set out in Appendix J of the Circular in respect of the relevant financial periods including the notes thereto.

Exhibit 1 — Summary restated financial information of the HanKore Group

(RMB'000)	FY2011 (Audited)	FY2012 (Audited)	FY2013 (Audited)	6M2013 (Unaudited)	6M2014 (Audited)
Income Statement					
Revenue	**268,474**	**203,801**	**575,689**	**220,203**	**166,682**
Cost of sales	(215,062)	(90,616)	(346,007)	(140,754)	(107,579)
Gross profit	53,412	113,185	229,682	79,449	59,103

(RMB'000)	FY2011 (Audited)	FY2012 (Audited)	FY2013 (Audited)	6M2013 (Unaudited)	6M2014 (Audited)
Other income	43,818	16,036	29,219	28,512	7,874
Total operating expenses	(199,522)	(62,098)	(153,885)	(35,025)	(115,504)
Operating profit/(loss)	**(102,292)**	**67,123**	**105,016**	**72,936**	**(48,527)**
Net finance cost	(36,959)	(44,024)	(56,892)	(23,197)	(34,271)
Profit/(loss) before tax	**(139,251)**	**23,099**	**48,124**	**49,739**	**(82,798)**
Tax expense	(15,462)	(13,461)	(20,439)	(4,224)	(14,115)
Profit/(loss) after tax	**(154,713)**	**9,638**	**27,685**	**45,515**	**(96,913)**
Net profit/(loss) attributable to minority interests	(3)	—	—	—	—
Net profit/(loss) attributable to Shareholders	**(154,710)**	**9,638**	**27,685**	**45,515**	**(96,913)**
Basic earnings/(loss) per share (RMB)	*(0.45)*	*0.02*	*0.06*	*0.11*	*(0.19)*
Diluted earnings/(loss) per share (RMB)	*(0.47)*	*0.02*	*0.06*	*0.10*	*(0.19)*
Financial Position					
Total Assets	**2,045,561**	**2,078,130**	**2,814,407**	N/A	**2,966,508**
Cash and bank balances[2]	**43,465**	**35,930**	**212,406**	N/A	**271,976**
Percentage of total assets	*2.1%*	*1.7%*	*7.5%*	N/A	*9.2%*
Financial receivables	1,731,169	1,731,748	2,050,095	N/A	2,091,434
Percentage of total assets	*84.6%*	*83.3%*	*72.8%*	N/A	*70.5%*
Long term and short term borrowings	**504,615**	**554,935**	**866,400**	N/A	**1,067,388**
Debt to net asset ratio	*0.44x*	*0.48x*	*0.64x*	N/A	*0.74x*
Net Debt	461,150	504,055	623,792	N/A	686,557
Net asset value attributable to Shareholders	**1,144,412**	**1,154,039**	**1,352,424**	N/A	**1,443,786**
Net debt to net asset ratio	*0.40x*	*0.44x*	*0.46x*	N/A	*0.48x*
Net asset value per share (RMB)	*2.75*	*2.77*	*2.78*	N/A	*2.83*
Cash Flow Statement					
Net cash from/(used in) operating activities	13,466	10,679	(148,910)	(14,861)	(27,403)
Net cash from/(used in) investing activities	(5,151)	(9,734)	2,739	5,000	(6,489)
Net cash from/(used in) financing activities	6,018	(8,762)	325,073	76,108	90,959
Net increase/(decrease) in cash and cash equivalents	**14,333**	**(7,817)**	**178,902**	**66,247**	**57,067**

Source: The Company's Non-Statutory Annual Report

a) Business segments of core operations

In FY2013, as part of a strategic decision to integrate an engineering, procurement and construction ("**EPC**") company to reinforce its EPC capabilities, the Company

2 Excludes restricted bank balances

completed its acquisition of a 100% stake in Jiangsu Tongyong Environment Engineering Co., Ltd. ("**JTEE**") (the "**JTEE Acquisition**"). JTEE is an EPC company primarily engaged in the equipment manufacturing, sales, designing and construction of environmental engineering in the environmental protection sector in the PRC. Following the JTEE Acquisition, the HanKore Group's main operating segments now primarily comprise the following:

(i) The receipt of fees from BOT/TOT wastewater treatment services such as the design, engineering, construction, operation and maintenance of municipal water and wastewater treatment plants;

(ii) The receipt of fees from the provision of EPC turnkey services involving the entire process from consultancy design, production, construction and engineering, installation and commissioning of environmental projects; and

(iii) Other operations including general and corporate activities.

The gross revenue from the receipt of fees from BOT/TOT wastewater treatment services and EPC turnkey services accounted for approximately 92.4% and 7.6% respectively of the total revenue for FY2013 as set out in Non-Statutory Annual Report, and approximately 91.1% and 8.9% respectively of the total gross contribution for the 6M2014. The other business segment of the HanKore Group's operations includes general and corporate activities, as well as other miscellaneous services which did not generate any revenue in FY2013 and 6M2014.

b) Earnings trend and outlook of the HanKore Group's operations

The HanKore Group registered a net loss after tax attributable to Shareholders in FY2011 of approximately RMB154.7 million. The HanKore Group's earnings position subsequently improved significantly by approximately 106.2% to register a net profit after tax attributable to Shareholders of approximately RMB9.6 million in FY2012. We understand that the improvement in the HanKore Group's earnings position was largely due to certain one-off provisions and losses recorded in FY2011 as a result of an internal review of the status of the investments of the HanKore Group. The management ("**Management**") and the board of directors of the Company had decided to dispose of some investments which were not likely to be beneficial to the HanKore Group in the long term. For other investments which had a carrying value in excess of their likely realizable value, it was determined that provisions for impairment in the value of such investments would be made. Such one-off major exceptional items were included in other operating expenses in FY2011. Based on the notes in the Non-Statutory Annual Report, we understand that these impairments in value impacted the net profit after tax attributable to Shareholders for FY2011 by approximately RMB70.5 million and other one-off losses and cost items added a further RMB146.7 million to the non-recurring costs.

Pursuant to the JTEE Acquisition in FY2013, the HanKore Group recorded a significant increase of approximately RMB18.0 million or approximately 187.2% in the net profit after tax attributable to Shareholders to approximately RMB27.7 million in FY2013. The strong profitability in FY2013 was largely due to the increase in construction revenue and recurring water treatment income derived from construction services provided under the service concession arrangements which have been secured by the HanKore Group, which rose by approximately 11 times from RMB30.6 million in FY2012 to RMB331.0 million in FY2013.

On the whole, the initial net loss position of the HanKore Group in FY2011 was largely due to the recognition of certain major exceptional items in FY2011 which gave rise to significant non-recurring expenses, and this is further evidenced by the turnaround of the HanKore Group's earnings to achieve a net profit after tax attributable to Shareholders in FY2012 as a result of improved operational management as well as a focus on upgrading core existing investments and pursuing new investments. In addition, the net profit position of the HanKore Group in FY2013 was also lifted by higher construction revenue and recurring water treatment income. In particular, we note that in the announcement of the Company's financial results for the financial year ended 30 June 2013 dated 29 August 2013, Mr Chen Dawei, David, the Executive Chairman of the Company had commented that "*As more of our BOT/TOT project phases gain approvals from the local authorities to charge higher water discharge fees, we are confident that our Group will be able to expand our recurring and stable earnings.*", which may affect the HanKore Group's earnings position in the next reporting period and over the next 12 months.

During the 6M2014, the HanKore Group registered a net loss after tax of approximately RMB96.9 million, which was a decline of approximately 312.9% from a net profit position for the corresponding six-month financial period ended 30 June 2013 ("**6M2013**"). We note that revenue during the 6M2014 registered a decline of approximately 45.5% from that during the 6M2013, mainly due to a drop of approximately 24.3% in fees derived from construction services from service concession arrangements. In addition, the decline in the HanKore Group's earnings position was mainly attributed to an approximate 117.4% increase in administrative expenses and an approximate 1,133% increase in other operating expenses arising from (i) the recognition of employee benefit expenses of approximately RMB26.5 million arising from issue of employee share options and (ii) certain non-cash fair value losses due to changes in fair value of certain financial instruments such as warrants and contingent consideration payable amounting to approximately RMB36.1 million.

c) Financial position of the HanKore Group

Total assets increased to approximately RMB2.8 billion as at 31 December 2013 from RMB2.1 billion as at the end of FY2012, which was mainly due to the increase in receivables and cash and cash equivalents. We note that the increase in cash and cash equivalents was due to a series of financing activities carried out by the Company which include (i) proceeds raised from the issuance of shares in FY2013 amounting to approximately RMB70.5 million and (ii) proceeds raised from the issuance of notes amounting to approximately RMB239.2 million as part of the S$300 million Multicurrency Medium Term Note Programme (the "**Programme**") which was established on 24 July 2013. Total assets stood at approximately RMB3.0 billion as at 30 June 2014 mainly due to an increase of approximately RMB138.0 million in cash and cash equivalents.

We also note that the assets of the Group primarily consist of non-current assets, of which, financial receivables relating to the service concession arrangements secured by the HanKore Group constitute approximately 70.5% of the total assets as at 30 June 2014. This is in line with the HanKore Group's business model of securing long-term investments with the aim of generating recurring income and stable cash flows. In addition, we note that the debt position of the HanKore Group, net of cash and cash equivalents, stands at a substantial amount of RMB686.6 million as at 30 June 2014, representing approximately 0.48 times of total assets. The HanKore Group took on additional bank borrowings, resulting in an increase in its borrowings level from RMB866.4 million at the end of FY2013 to RMB1.1 billion as at 30 June 2014 for general working purposes, including financing investments and general working capital requirements. It should be noted that the operating cash flow of the HanKore Group has been negative for FY2013 and 6M2014, and the HanKore Group has relied substantially on proceeds from the issuance of debt and equity securities to offset the decline in earnings performance of the its operations, as reflected by a positive financing cash flow of RMB325.1 million and RMB91.0 million, and a negative operating cash flow of RMB148.9 million and RMB27.4 million during FY2013 and 6M2014 respectively.

We wish to highlight to the Independent Directors that the above analysis is not meant to be an indication of, or comment on the HanKore Group's future profitability, growth prospects, financial position and working capital sufficiency.

7.3 Financial assessment of the Effective Issue Price

(a) NAV / NTA of the HanKore Group

(i) NAV of the HanKore Group

The net asset value ("**NAV**") of a group refers to the aggregate value of all the assets in their existing condition, net of any minority interests and all liabilities of the group. The net asset value approach may provide an estimate of the value of a group assuming the hypothetical sale of all of its assets over a reasonable period of time, the proceeds of which would be first used to settle the liabilities of that group with the balance available for distribution to its shareholders. Therefore, the net assets of a group are perceived as providing support for the value of shareholders' equity.

However, such a hypothetical scenario is assumed to be made without considering factors such as, *inter alia*, time value of money, market conditions, legal fees, liquidation costs, taxes, contractual obligations, regulatory requirements and availability of potential buyers, which would theoretically lower the net asset value that can be realized.

As a basis for our assessment of the net assets of the Group, we have set out a summary of the Group's total assets as at the end of FY2011, FY2012, FY2013 and 6M2014 in Exhibit 2 below.

Exhibit 2 — Breakdown of total assets of the HanKore Group

	As at 31 December			As at 30 June
(RMB'000)	2011	2012	2013	2014
Total Assets	**2,045,561**	**2,078,130**	**2,814,407**	**2,966,508**
Current Assets	**227,449**	**263,421**	**557,229**	**697,048**
Percentage of total assets	*11.1%*	*12.7%*	*19.8%*	*23.5%*
Financial receivables	**124,240**	**138,719**	**145,946**	**174,184**
Percentage of total assets	*6.1%*	*6.7%*	*5.2%*	*5.9%*
Trade and other receivable	**58,878**	**72,838**	**179,874**	**131,499**
Percentage of total assets	*2.9%*	*3.5%*	*6.4%*	*4.4%*
Cash and cash equivalents	43,465	50,880	242,608	380,831
Percentage of total assets	*2.1%*	*2.4%*	*8.6%*	*12.8%*
Inventories	**866**	**984**	**6,334**	**10,534**
Non-current assets	**1,818,112**	**1,814,709**	**2,257,178**	**2,269,460**
Percentage of total assets	*88.9%*	*87.3%*	*80.2%*	*76.5%*
Financial receivables	**1,606,929**	**1,593,029**	**1,904,149**	**1,917,250**
Percentage of total assets	*78.5%*	*76.6%*	*67.6%*	*64.6%*
Intangible assets	**119,809**	**124,073**	**235,998**	**239,525**
Property, plant and equipment	**42,632**	**50,862**	**54,772**	**54,863**
Land use rights	**48,742**	**46,745**	**44,726**	**43,717**
Other receivables	**—**	**—**	**17,533**	**14,105**
Total Liabilities	**901,378**	**924,320**	**1,462,212**	**1,522,951**
Non-controlling interests	(229)	(229)	(229)	(229)
Net asset value attributable the Shareholders	**1,144,412**	**1,154,039**	**1,352,424**	**1,443,786**
NAV per Share (RMB)	2.75	2.77	2.78	2.83

Source: The Company's Non-Statutory Annual Reports

The audited NAV and NAV per Share of the HanKore Group as at 30 June 2014 were approximately RMB1.4 billion and RMB2.83 respectively. For illustrative purposes only, the Effective Issue Price of S$0.625 per Share or approximately RMB3.00 per Share (based on an agreed foreign exchange rate of RMB1 : S$0.2086) represents a premium of approximately 6.0% to the audited NAV per Share as at 30 June 2014.

Based on the Effective Issue Price, the implied valuation of the HanKore Group ("**Implied Valuation**") is approximately S$342.0 million on a fully-diluted basis (assuming the exercise of warrants and share options outstanding as at 30 June 2014). The price-to-net asset value ("**P/NAV**") ratio is therefore 1.14 times on a fully diluted basis as at 30 June 2014.

(ii) NTA of the HanKore Group

The net tangible assets ("**NTA**") based approach of valuing a company or group is based on the aggregate value of all the tangible assets of the company in their existing condition, after deducting the sum of all liabilities and intangible assets of the company. The NTA based approach is meaningful as it shows the extent to which the value of each share is backed by tangible assets and would be relevant in the event that the company or group decides to realise or convert the use of all or most of its assets. The NTA based approach in valuing a company may provide an estimate of the value of a company or group assuming the hypothetical sale of all its assets over a reasonable period of time at the aggregate value of the assets used in the computation of the NTA, the proceeds of which are used to settle the liabilities, minority interest and obligation of the company or group with the balance to be distributed to its shareholders. However, the NTA based approach does not take into account or consideration the presence of any intangible assets such as goodwill, trademarks and brand names. The NTA of a company or group is equivalent to the historical cost of replacing its assets in their existing condition after deducting its liabilities, obligations and intangible assets, with the values of the assets in their existing condition, obligations and intangible assets being determined as the amounts or values as recorded or reflected in its audited financial statements.

Based on the Non-Statutory Annual Report as at 30 June 2014, the HanKore Group's tangible assets consist primarily of non-current assets (76.5% of the total assets) which mainly comprises financial receivables (84.5% of non-current assets). We note that intangible assets make up approximately 8.1% of the total assets, which mainly comprises of concession rights (52.1% of intangible assets) and goodwill (37.6% of intangible assets). The audited NTA and NTA per Share of the HanKore Group on a fully diluted basis as at 30 June 2014 were approximately RMB1.2 billion and RMB2.19 respectively. For illustrative purposes only, the Effective Issue Price of S$0.625 per Share or approximately RMB3.00 per Share (based on an agreed foreign exchange rate of RMB1 : S$0.2086) represents a premium of approximately 37.0% to the audited NTA per Share as at 30 June 2014.

Based on the Implied Valuation, the price-to-net tangible assets ("**P/NTA**") ratio is therefore 1.37 times on a fully diluted basis as at 30 June 2014.

We have also considered whether there are any factors which have not been otherwise disclosed in the financial statements of the Company that are likely to reduce the audited book NAV and NTA as at 30 June 2014. In this respect, the Directors and Management have confirmed that, to the best of their knowledge and belief, there are no undisclosed factors which are likely to reduce the audited book NAV and NTA at 30 June 2014 and there are no other contingent liabilities which would have a material impact on the NAV and NTA of the Company as at the Latest Practicable Date.

The Directors have also confirmed that save as publicly disclosed and in the ordinary course of business, there have been no material acquisitions and disposals of assets by the Company since 30 June 2014 up to the Latest Practicable Date. We further understand from the Management that the HanKore Group does not have any plans for an impending material disposal and/or conversion of the use of the HanKore Group's assets and/or material change in the nature of the HanKore Group's business as at the Latest Practicable Date.

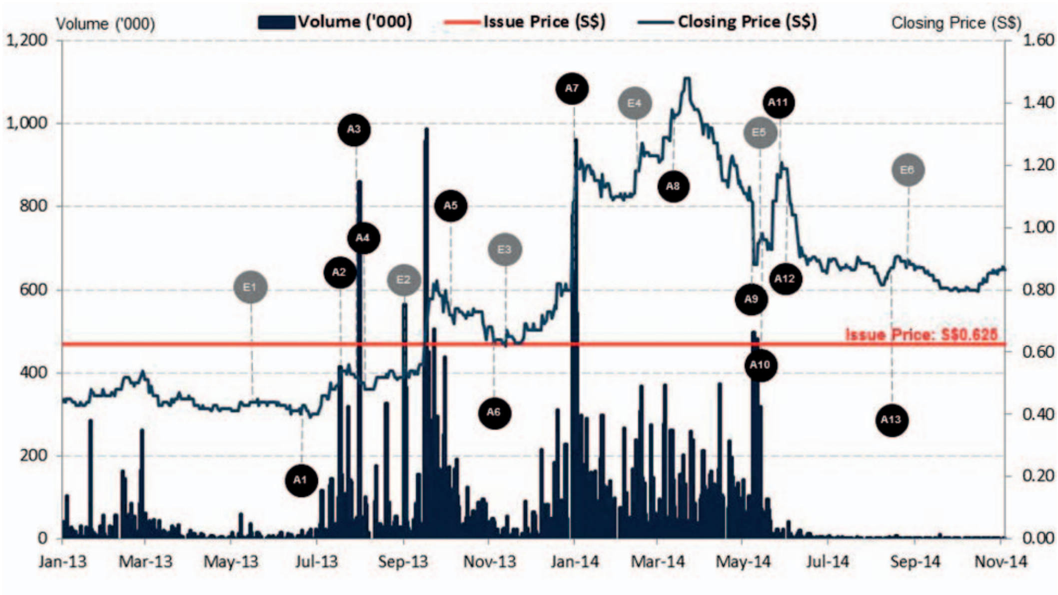
The above computations and analysis are meant as an illustration and it does not necessarily mean or imply that the net realisable value of the HanKore Group is as stated above. It also does not imply that the assets or properties of the HanKore Group can be disposed of at the estimated value indicated above and that after payment of all liabilities and obligations, the values or amounts as indicated for the respective types of NAV and/or NTA is realisable or distributable to the Shareholders of the Company.

(c) Share price performance and trading volume

On 4 November 2013, the Company announced that it was proposing to consolidate every ten (10) ordinary shares of par value HK$0.10 each in the capital of the Company (including treasury shares) into one (1) ordinary share of par value HK$1.00 (the "**Proposed Share Consolidation**"). As the Proposed Acquisition and the Nominal Issue Price of S$0.703 was announced after the Proposed Share Consolidation became effective in May 2014, for the purpose of evaluating the Share price and the trading volume of the Shares, we have looked at the historical market prices of the Shares on a post-Share Consolidation basis and vis-à-vis the Effective Issue Price.

In addition, we note that the first instance where details of the proposed transaction between HanKore and CEIL were made known to the public was at the Framework Agreement Announcement Date. We are of the opinion that the timeframe commencing from the Framework Agreement Announcement Date leading up to the Proposed Acquisition Announcement Date may not be an accurate reflection of the normal historical performance and trading level of the Shares given that there may have been significant speculative trading activities in the Shares which may have distorted the Share price and trading volume. Accordingly, for the purpose of assessing the Effective Issue Price, we have set out below the historical trend of the daily last transacted price and trading volume of the Shares from 27 December 2012 (being the 1-year period up to and including the Framework Agreement Announcement Date) up to the Latest Practicable Date.

Exhibit 3 — Daily Last Transacted Price and Trading Volume of the Shares for the one year period prior to the Announcement Date and up to the Latest Practicable Date



Source: Bloomberg L.P.

Earnings Announcements:

E1: On 14 May 2013, the Company announced financial results for the financial period ended 31 March 2013, in which the HanKore Group's net profit almost quadruples to RMB31.8 million.

E2: The Company had on 29 August 2013 announced its full year unaudited financial results for the financial year ended 30 June 2013. The Company recorded net profit of RMB99.5 million on a 50.4% increase in revenue to RMB369.1 million for FY2013, mainly due to higher revenue achieved on the back of higher construction revenue and recurring water treatment income.

E3: On 13 November 2013, the Company announced its financial results for the financial period ended 30 September 2013, in which its net profit increased 149% to RMB30.4 million on a 50.2% increase in revenue to RMB134.1 million.

E4: The Company had on 14 Feb 2014 announced financial results for its first half ended 31 December 2013. The HanKore Group's net profit increased 63% to RMB59.8 million on a 126% revenue increase to RMB332 million. It reported an expected boost in recurring income through higher water treatment capacity and higher water discharge fees from completed EPC projects.

E5: The Company had on 15 May 2014 announced financial results for the financial period ended 31 March 2014, in which the HanKore Group's revenue and gross profits increased by 56.3% and 40.7% respectively in the financial period ended 31 March 2014 as compared to the financial period ended 31 March 2013.

E6: The Company had on 25 August 2014 announced its full year unaudited financial results for the financial year ended 30 June 2014. It reported a 63.3% year-on-year increase in revenue to RMB522.2 million and a 30.5% yoy increase in gross profit to RMB209.3 million for its full year ended 30 June 2014 compared with its restated financial statement for FY2013. However, the HanKore Group's profitability was affected by non-cash fair value loss and non-recurring expenses, resulting in a net loss of RMB114.7 million for the year.

Other Selected Announcements:

A1: On 19 June 2013, the Company announced that regarding the acquisition of the entire issued share capital of Jiangsu Tongyong Environment Co. Ltd by the Company, the tranche 1 Shares (amounting to 360 million Consideration Shares) have been allotted and issued to the Receiving Company. The Tranche 1 Shares rank pari passu in all respects with the existing Shares of the Company. The Company also announced that the SGX-ST had on 8 March 2013, granted approval in-principle for the listing of and quotation for the Consideration Shares on the Mainboard of the SGX-ST, which are expected to be listed and quoted on the Main board on 20 June 2013.

A2: On 18 July 2013, the Company announced that it has entered into a placement agreement with Mr Wang Yu Huei, Managing Director of Asdew Acquisitions Pte. Ltd., where he will subscribe for 293,617,000 new ordinary shares at the issue price of S$0.05 per placement share. Upon completion of the placement exercise, Mr Wang Yu Huei will be a substantial shareholder with 6.09% of the enlarged share capital of the Group. The estimated net proceeds of approximately S$14.7 million will be used mainly to fund new investment in water treatment projects and working capital.

A3: On 26 July 2013, the Company announced that it intends to issue the first series of notes comprising S$50,000,000 in aggregate principal amount of 7.50 per cent. per annum fixed rate notes due 1 August 2015 pursuant to its S$300,000,000 Multicurrency Medium Term Note Programme established on 23 July 2013.

A4: On 1 August 2013, the Company announced that it has successfully issued an aggregate principal amount of S$50 million 7.5% Fixed Rate Notes due 1 August 2015 under the S$300 million Multicurrency Medium Term Note Programme established on 24 July 2013.

A5: On 2 October 2013, the Board of Directors of the Company proposed to increase the authorised share capital of the Company from the existing HK$600,000,000 to HK$1,500,000,000 with a par value of HK$0.10 each by the creation of an additional 9,000,000,000 ordinary shares in the capital of the Company to cater to any future issue of Shares or convertible securities as and when it arises.

A6: On 4 November 2013, the Board of Directors of the Company proposed to consolidate every ten existing ordinary shares of par value HK$0.10 each in the capital of the Company (including treasury shares) into one ordinary share of par value HK$1.00.

A7: On 30 December 2013, the Company announce that the Company has entered into a framework agreement with China Everbright Water Investments Limited, pursuant to which the Company proposes to acquire all the investments of the Vendor and China Everbright International Limited. (the "**Framework Agreement**").

A8: On 14 March 2014, the Company announced that the Tranche 2 shares in relation to the acquisition of Jiangsu Tongyong Environment Engineering Co Ltd by the company have been allotted and issued to the Receiving Company. The Company also announced that the SGX-ST had on 8 March 2013, granted approval in-principle for the listing of and quotation for the Consideration Shares on the Mainboard of the SGX-ST, which are expected to be listed and quoted on the Main board on 18 March 2013.

A9: On 9 May 2014, the Company announced that the Parties to the Framework Agreement entered into between the Company and China Everbright Water Investments have on 30 April 2014 agreed to extend the exclusivity period to 31 May 2014.

A10: On 16 May 2014, the Company announced that the Proposed Share Consolidation shall be effective from 9.00 a.m. on the Market Day immediately following the Books Closure Date, being 27 May 2014 whereupon the Register of Members of the Company and the Depository Register, will be updated to reflect the number of Consolidated Shares held by each Shareholder respectively based on the number of Shares held by them as at the Books Closure Date. Notwithstanding that the Proposed Share Consolidation will only become effective on the Effective Date (27 May 2014), the Consolidated Shares will begin trading in board lots of 1,000 Consolidated Shares at 9.00 am on 22 May 2014. Accordingly, ten Shares as at 5.00 pm on the Market Day immediately preceding the Effective Trading Date, that is 21 May 2014, will represent one (1) Consolidated Share with effect from 9.00 am on the Effective Trading Date, that is 22 May 2014. Trading in the Shares will cease after 5.00 pm on the Market Day immediately preceding the Effective Trading Date.

A11: On 26 May 2014, Singapore Exchange Securities Trading Limited issued a query to HanKore Environment Tec Grp Ltd regarding the substantial increase in its share price by 19.4% on 23 May 2014. The Company has responded on 26 May 2014 that it was not aware of any reasons other than announcements made with respect to (i) the entering into of a framework agreement with China Everbright Water Investments Limited in relation to a proposed acquisition by the Issuer of assets in the environmental water sector and the extension of the exclusivity period in connection with the proposed acquisition to 31 May 2014, dated 30 December 2013 and 30 April 2014 respectively, (ii) unaudited financial statements for the third quarter ended and nine months ended 31 March 2014, dated 15 May 2014, and (iii) consolidation of every ten existing ordinary shares into one where the Consolidated Shares begin trading in board lots of 1,000 Consolidated Shares at 9.00 am on 22 May 2014, dated 16 May 2014, that could possibly explain the trading in its securities.

A12: On 2 June 2014, the Company entered into a conditional sale and purchase agreement with China Everbright Water Holdings Limited as the vendor in respect of the Proposed Acquisition by the Company of the entire issued and paid-up ordinary share capital of CEWIL.

A13: On 14 August 2014, the Company announced that the Target Company, being China Everbright Water Investments Limited, has entered into agreements to acquire a 78% equity interest in Qingdao Veolia Water Operating Company Limited ("**Qingdao Veolia**") and a 40% equity interest in EB-VW HK Holding Company Limited ("**EB-VW**") from Veolia Water S.A. for a total consideration of RMB92 million ("**Qingdao Project Acquisition**"). After the completion of the Qingdao Project Acquisition, the Target Company will hold a 99% equity interest in Qingdao Veolia and wholly own EB-VW. EB-VW holds a 60% equity interest in Qingdao EB-VW Waste Water Treatment Co. Ltd ("**Qingdao EB-VW**"). Qingdao Veolia and Qingdao EB-VW are mainly responsible for the management and operation of the Qingdao Waste Water Treatment Project (Haibohe and Maidao Plants) ("**Qingdao Project**"). After the Qingdao Project Acquisition, the daily waste water treatment capacity of the Qingdao Project will increase to 300,000 m^3. The Company also announced that the Consideration payable by the Company for the purchase of the Sale Shares remains unchanged as set out in the announcement dated 2 June 2014.

Based on Exhibit 3 above, we note that over the last one (1) year prior and up to the Framework Announcement Date, the Shares have consistently traded at closing prices below the Effective Issue Price, save for 71 market days between 17 September 2013 to 30 December 2013 out of a total of 249 market days leading up to the announcement of the Framework Agreement on 30 December 2013.

(d) Volume-weighted average price and average daily trading volume

We have compared the Effective Issue Price against the volume-weighted average price ("**VWAP**") of the Shares over different observation periods in both the periods prior to the Framework Agreement Announcement Date and Proposed Acquisition Announcement Date respectively, as well as on the Latest Practicable Date. Furthermore, we have also examined the highest and lowest price, average daily trading volume and average daily trading volume as a percentage of free float for the periods under observation, as set out Exhibits 4 and 5 below.

Exhibit 4 — Premium/(discount) implied by Effective Issue Price to VWAP (Framework Agreement Announcement Date)

	VWAP[(1)] (S$)	Premium of the Effective Issue Price to VWAP (%)	Lowest transacted price (S$)	Highest transacted price (S$)	Average daily trading volume[(2)]	Average daily trading volume as a % of free float[(3)] (%)
For the period prior to the Framework Agreement Announcement Date						
1-year VWAP	0.621	0.6	0.380	0.850	7,301,826	2.83
6-month VWAP	0.651	(4.0)	0.380	0.850	11,694,028	4.54
3-month VWAP	0.703	11.1	0.620	0.850	8,265,376	3.21
1-month VWAP	0.750	(16.7)	0.660	0.840	8,380,350	3.25
27 December 2013, being the last trading day prior to the Framework Agreement Announcement Date	0.800	(21.9)	0.800	0.820	5,051,200	1.96
For the period after the Framework Agreement Announcement Date						
Between the Framework Agreement Announcement Date and up to the Latest Practicable Date	1.136	(45.0)	0.785	1.490	9,836,824	3.82
3 November 2014, being the Latest Practicable Date	0.875	(128.6)	0.865	0.895	2,457,000	0.95

Source: Bloomberg L.P.

Notes:

(1) The VWAP has been weighted based on the average traded price of the Shares and traded volume for the relevant trading days for each period as obtained from Bloomberg L.P..

(2) The average daily trading volume of the Shares is calculated based on the total volume of Shares traded during the period divided by the number of market days during that period.

(3) Free float refers to the Shares other than those held by the Directors and the substantial shareholders of the Company, and amounts to approximately 257.6 million Shares, representing approximately 50.5% of the issued Shares as at the Latest Practicable Date.

Based on the above, we note that:

(i) The Effective Issue Price of S$0.625 per Share is **within the range** of the daily closing price of the Shares over the 1-year period up to the last trading day prior to the Framework Agreement Announcement Date, which is between a low of S$0.380 per Share and a high of S$0.850 per Share;

(ii) The Effective Issue Price represents a **discount of approximately 21.9%, 16.7%, 11.1% and 4.0%** to the last transacted price, 1-month, 3-month and 6-month VWAP of the Share respectively, and a **premium of approximately 0.6%** over the 1-year VWAP of the Shares respectively;

(iii) The Effective Issue Price represents a **discount of 45.0%** to the VWAP of the Shares for the period between the market day immediately after the Framework Agreement Announcement Date and up to the Latest Practicable Date;

(iv) As at the Latest Practicable Date, the Effective Issue Price represents a **discount of 28.6%** to the last transacted price of the Shares of S$0.875; and

(v) The volume of Shares traded on the last trading day prior to the Framework Agreement announcement date was 5,051,200 Shares which is the lowest for the one (1) year period prior to the Framework Agreement announcement date. This represents approximately 1.96% of the Company's free float.

We note that the Effective Issue Price was arrived at based on the per Share VWAP of the Shares on the SGX-ST for the preceding 90 trading days on the SGX-ST ending on the Framework Agreement Announcement Date. As indicated in paragraph 7.3(c) of this letter, we also note that there was a gradual increase of approximately 29.0% in the Share Price following the announcement of the Company's first quarter financial results on 13 November 2013 leading up to the Framework Agreement Announcement Date.

Exhibit 5 — Premium/(discount) implied by Effective Issue Price to VWAP (Proposed Acquisition Announcement Date)

	VWAP[(1)] (S$)	Premium of the Effective Issue Price to VWAP (%)	Lowest transacted price (S$)	Highest transacted price (S$)	Average daily trading volume[(2)]	Average daily trading volume as a % of free float[(3)] (%)
For the period prior to the Proposed Acquisition Announcement Date						
1-year	0.932	(32.9)	0.380	1.490	12,823,982	4.98
6-month	1.144	(45.4)	0.660	1.490	15,053,970	5.84
3-month	1.210	(48.3)	0.790	1.490	14,765,021	5.73
1-month	1.024	(39.0)	0.790	1.270	14,722,138	5.71
30 May 2014, being the last trading day prior to the Proposed Acquisition Announcement Date	1.190	(47.5)	1.185	1.270	24,458,000	9.49
For the period after the Proposed Acquisition Announcement Date						
Between the Proposed Acquisition Announcement Date and up to the Latest Practicable Date	0.928	(32.7)	0.785	1.225	3,577,315	1.39
3 November 2014, being the Latest Practicable Date	0.875	(28.6)	0.865	0.895	2,457,000	0.95

Source: Bloomberg L.P.

Notes:

(1) The VWAP had been weighted based on the average traded price of the Shares and traded volume for the relevant trading days for each period.

(2) The average daily trading volume of the Shares is calculated based on the total volume of Shares traded during the period divided by the number of market days during that period.

(3) Free float refers to the Shares other than those held by the Directors and the substantial shareholders of the Company, and amounts to approximately 257.6 million Shares, representing approximately 50.5% of the issued Shares as at the Latest Practicable Date.

Based on the above, we note that:

(i) The Effective Issue Price of S$0.625 per Share is **within the range** of the daily closing price of the Shares over the 1-year period up to the last trading day prior to the Proposed Acquisition announcement date, which is between a low of S$0.380 per Share and a high of S$1.490 per Share;

(ii) The Effective Issue Price represents a **discount of approximately 47.5%, 39.0%, 48.3%, 45.4% and 32.9%** to the last transacted price, 1-month, 3-month, 6-month and 1-year VWAP of the Share respectively;

(iii) The Effective Issue Price represents a **discount of 32.7%** to the VWAP of the Shares for the period between the market day immediately after the Proposed Acquisition Announcement Date and up to the Latest Practicable Date;

(iv) As at the Latest Practicable Date, the Effective Issue Price represents a **discount of 28.6%** to the last transacted price of the Shares of S$0.875;

(v) As at the last trading day prior to the Proposed Acquisition announcement date, the Shares traded at an average daily trading volume of 24,458,000 Shares representing approximately 9.49% of the Company's free float, this was the highest in a year. There appears to be an increasing trend of market activity / active investor interest involving the Shares as indicated by the frequency of transactions.

We note that during the 6-month period prior to the announcement of the Framework Agreement, the Shares had traded within a range of S$0.380 to S$0.850 and traded mostly below the Effective Issue Price. Additionally, we also note that during the period after the announcement of the Framework Agreement but before the announcement of the Proposed Acquisition, the Shares had traded within a range of S$0.660 to S$1.490 and traded mostly above the Effective Issue Price. In the 1-year period prior to the Announcement Date, Shares traded within a range of S$0.380 to S$1.490. Subsequent to the Announcement Date and up to the Latest Practicable Date, the Shares had traded within a smaller range of S$0.785 to S$1.225.

Trading liquidity of the Shares had decreased slightly with the average daily trading volume for the period subsequent to the Announcement and up to the Latest Practicable Date being 1.39% of the free float as compared to that of 4.98% for the 1-year period prior to the Announcement Date.

The Independent Directors should note that the past trading performance for the Shares may not be relied upon as an indication or promise of its future trading performance.

(e) ***Financial assessment of the Effective Issue Price vis-à-vis comparable completed transactions on the SGX-ST***

In our assessment of the reasonableness of the Effective Issue Price, we have considered the details of other similar recently completed "Reverse-Takeover" ("**RTO**") transactions undertaken by SGX-ST listed companies wherein the relevant purchase considerations was satisfied via the issuance and allotment of new shares, with or without cash payment (the "**Comparable Transactions**") to provide, *inter alia*, a comparison of the premium/discount of the issue prices of the shares over/to the last transacted prices for the shares of these companies prior to the date of the relevant announcement and the NTA of the companies.

Exhibit 6 — Precedent RTO transactions in Singapore

RTO Companies	Target Companies	Announcement Date	Issue price (S$)	Last transacted price on market day prior to announcement date (S$)	Premium/ (Discount) of issue price on market day prior to announcement day (%)	Issue price / NTA (times)
Scorpio East Holdings Limited(1)	KOP Properties Pte Ltd	26-Aug-13	0.105	0.091	15.38	1.0
W Corporation Limited(2)	YuuZoo Corporation Limited	7-Oct-13	0.10	0.064	56.25	N.M.
Pteris Global Limited(3)	Shenzhen CIMC-Tianda Airport Support Ltd	6-Feb-13	0.130	0.123	5.69	1.4 to 2.4
Ultro Technologies Limited(4)	Ley Choon Constructions and Engineering Pre Ltd	26-Dec-11	0.028	0.017	64.71	2.23
Hartawan Holdings Limited(5)	Wilton Resources Corporation Ltd	31-Oct-11	0.1667	0.119	40.08	3.04
Sinobest Technology Holdings Ltd(6)	OKH Holdings Pte Ltd	5-Jul-11	0.120	0.132	(9.09)	0.43
Radiance Group Limited(7)	Global Invacom Holdings Ltd	30-Jun-11	0.07717	0.085	(9.21)	0.48
Asia Silk Holdings Ltd(8)	Chaswood Resources Sdn Bhd	25-Mar-11	0.030	0.030	—	2.51
Kyodo-Allied Industries Ltd(9)	Great Spirit Management	10-Mar-11	0.365	0.280	30.36	1.21

RTO Companies	Target Companies	Announcement Date	Issue price (S$)	Last transacted price on market day prior to announcement date (S$)	Premium/ (Discount) of issue price on market day prior to announcement day (%)	Issue price / NTA (times)
SM Summit Holdings Ltd(10)	Centurion Dormitory (Westliste) Pte Ltd and Lan Beng-Centurion (Mandai) Pte Ltd	13-Jan-11	0.100	0.135	(25.93)	0.78
Maximum					**64.71**	**3.04**
Minimum					**(25.93)**	**0.43**
Median					**10.54**	**1.75**
Simple Average					**17.10**	**1.60**
	Last trading day Prior to the Framework Agreement Announcement date					
HanKore Group(11)		30-Dec-13	0.625	0.800	(21.88)	1.31
	Last trading day Prior to the Proposed Acquisition Announcement date					
HanKore Group(12)		30-Dec-13	0.625	1.190	(47.48)	0.98

Source: Bloomberg L.P. and circulars of the respective Comparable Transactions

Notes:

(1) Based on the revalued NTA of the group of S$145.0 million as per its circular dated 31 March 2014.

(2) Based on the issue price on a pre-share consolidation basis of S$0.10 and the unaudited NTA of the group as at 30 September 2013 showing the company to be in a net liabilities position.

(3) Based on the issue price on a pre-share consolidation basis of S$0.13.

(4) Based on the audited NTA of the group as at 31 December 2011.

(5) Based on the issue price on a pre-Share Consolidation basis of S$0.1667 and the unaudited NTA of the Hartawan Group as at 30 June 2013 before the Completion. The discount to the last traded price prior to the Announcement was based on the Effective Issue Price on a pre-Share Consolidation basis and the last traded share price of S$0.119 on the last trading day prior to the Announcement.

(6) Based on the unaudited NTA of the group as at 30 June 2012 before the disposal of the company's shareholding interest in the operating subsidiaries involving a selective share cancellation.

(7) Based on the issue price on a pre-share consolidation basis of S$0.077175 and the audited NTA of the group as at 31 December 2011 before the completion of the acquisition.

(8) Based on the adjusted unaudited NTA of the group as at 30 June 2011 which assumes that the completion of the disposal of its existing business had been effected on 30 June 2011. Following the disposal but before the completion of the acquisition, the assets of Asia Silk will consist wholly of cash. Accordingly, the company will become a "cash company" within the meaning of Rule 1017 of the Catalist Rules. The issue price is at the last traded price prior to the announcement.

(9) Based on the issue price on a pre-share consolidation basis of S$0.104 and the audited NTA of the group as at 30 June 2010 before the full conversion of its convertible loan.

(10) Based on the unaudited NTA of the group as at 31 March 2011.

(11) Based on the restated NTA of the HanKore Group as at 31 December 2013 before the Framework Agreement Announcement. The discount to the last traded price prior to the Framework Agreement Announcement was based on the Effective Issue Price on a post-Share Consolidation basis and the last traded share price of $0.800 on the last trading day prior to the Framework Agreement Announcement.

(12) Based on the unaudited NTA of the HanKore Group as at 31 March 2014 before the Proposed Acquisition Announcement. The discount to the last traded price prior to the Announcement was based on the Effective Issue Price on a post-Share Consolidation basis and the last traded share price of $1.190 on the last trading day prior to the Proposed Acquisition Announcement.

Based on the above, we note that:

(a) the discount of 21.9% as implied by the Effective Issue Price over the last traded price prior to the Framework Agreement Announcement date is within the range and lower than the mean and median premia and discounts of the Comparable Transactions;

(b) the discount of 47.5% as implied by the Effective Issue Price over the last traded price prior to the Proposed Acquisition Announcement date is lower than the range and lower than the mean and median premia and discounts of the Comparable Transactions;

(c) the historical P/NTA ratio before the announcement of the Framework Agreement as implied by the Effective Issue Price of 1.31 times is within the range and lower than the mean and the median of the P/NTA ratios of the Comparable Transactions; and

(d) the historical P/NTA ratio before the announcement of the Proposed Acquisition as implied by the Effective Issue Price of 0.98 times is within the range and lower than the mean and the median of the P/NTA ratios of the Comparable Transactions.

The Independent Directors should note that as the circumstances for each of the companies listed is unique and as the companies or the transactions may not be identical to the HanKore Group, Target Group or the Proposed Acquisition in terms of business activities, size of operations, market capitalization, asset base, risk profile, track record, future prospects and other relevant criteria, the analysis is necessarily limited. Further, the list of

Comparable Transactions is by no means exhaustive and information relating to the said companies was compiled from publicly available information. Accordingly, any comparison between the Effective Issue Price and the Comparable Transactions serves as an illustrative guide only.

7.4 Financial assessment of the Consideration

(a) Financial performance of the Target Group

The principal activities of the Target Group are construction and operation of environmental water and related services projects (waste-water treatment plants, reusable water treatment plants and water source heat pump projects).

For the purpose of evaluating the financial terms of the Proposed Whitewash Resolution, we have considered the report on the audited consolidated financial statements of the Target Group for FY2011, FY2012, FY2013 and the report on the audited consolidated financial statements of the Target Group for the 6M2014 as set out respectively in Appendix H and Appendix I of the Circular.

Based on the audited consolidated financial information of the Target Group as set out in Appendix H and Appendix I of the Circular, the financial highlights of the Target Group in respect of FY2011, FY2012, FY2013 and the 6M2014 are set out below:

Exhibit 7 — Financial highlights of the Target Group

(HK$'000)	FY2011	FY2012	FY2013	6M2013	6M2014
Consolidated Income Statements					
Revenue	854,532	1,391,027	1,290,740	574,407	505,837
Gross profit	455,035	484,722	529,262	256,843	309,143
Profit from operations	409,386	457,063	480,754	228,522	281,984
Profit/(loss) before income tax	303,029	366,381	401,995	190,199	247,246
Income tax expense	(72,228)	(98,149)	(111,553)	(56,488)	(69,056)
Profit/(loss) after income tax	230,801	268,232	290,442	133,711	178,190
Net profit/(loss) attributable to equity shareholders of the Target Company	203,026	246,676	266,486	125,644	165,999
Consolidated Balance Sheets					
Current assets	1,000,938	801,452	1,021,743		1,047,587
Non-current assets	3,489,014	4,034,152	4,368,743		4,111,388
Total assets	4,489,952	4,835,604	5,390,486		5,158,975

(HK$'000)	FY2011	FY2012	FY2013	6M2013	6M2014
Current liabilities	559,054	786,173	920,041		607,474
Non-current liabilities	2,516,176	2,431,626	2,479,050		1,254,192
Total liabilities	3,075,230	3,217,799	3,399,091		1,861,666
				N/A	
Equity attributable to equity shareholders of the Target Company	1,037,334	1,308,190	1,648,887		2,951,029
Non-controlling interests	377,388	309,615	342,508		346,280
Total equity	1,414,722	1,617,805	1,991,395		3,297,309
Consolidated Cash Flow Statements					
Net cash from/(used in) operating activities	777,731	46,613	250,272	11,915	(24,342)
Net cash from/(used in) investing activities	(140,007)	(148,058)	(52,423)	(1,848)	48,193
Net cash from/(used in) financing activities	(544,982)	(181,411)	(126,289)	62,971	51,452
Net increase/(decrease) in cash and cash equivalents	92,742	(282,856)	71,560	73,038	75,303
Effect of foreign exchange rates changes on the cash and cash equivalents	13,796	4,973	4,833	2,410	(6,235)
Cash and cash equivalents at end of the year	448,435	170,552	246,945	246,000	316,013

Turnover of the Target Group is derived primarily from the revenue received from construction services, operation services and finance income. The aggregated revenues from these three income streams derived from local government authorities in the PRC amounted to approximately HK$798.3 million, HK$1,218.0 million, HK$1,229.9 million, HK$550.7 million and HK$466.2 million for FY2011, FY2012, FY2013, the 6M2013 and 6M2014 respectively, which represents approximately 93.4%, 87.6%, 95.3%, 95.9% and 92.2% of the total revenue for the respective financial years. We note that according to earnings announcement released by CEIL for the interim six-month period ended 30 June 2014, the increase in turnover was primarily due to the expansion of water treatment operations carried out by the Target Group, whereby the Target Group treated 276,518,000 m^3 of waste water which represented an approximate 14.0% increase over the treated capacity during the 6M2013.

Net profit attributable to equity shareholders of the Target Company increased by HK$43.7 million, or 21.5%, from HK$203.0 million in FY2011 to HK$246.7 million in FY2012. Correspondingly, net profit attributable to equity shareholders of the Target Company increased by HK$19.8 million, or 8.0% to HK$266.5 million in FY2013. For the 6M2014, net profit attributable to equity shareholders of the Target Company increased by approximately HK$40.4 million, or 32.1% to HK$166.0 million from HK$125.6 million for the 6M2013. This is mainly attributable to the growth of the Target Group's wastewater treatment operations as well as the continuous increase in operating efficiency of such operating projects.

As at 30 June 2014, the Target Group had total assets of approximately HK$5.2 billion mainly comprising an aggregate amount of approximately HK$2.1 billion due from debtors, other receivables, deposits and prepayments, which are mainly revenue from operation services and considerations paid for the acquisition of waste-water treatment plants under TOT arrangements. There was no recent history of default in respect of the Target Group's debtors, which are mostly local government authorities in the PRC and based on past experiences, the Management believes that the balances are still fully recoverable and have not made any impairment allowance. The amounts for TOT arrangements are not yet due for payment and will be settled by revenue to be generated during the operating periods. Another substantial component of the Target Group's total assets is a gross amount of approximately HK$2.3 billion due from customers for contract work, which represent revenue from construction under BOT and Build-Transfer ("**BT**") arrangements or upgrade services under TOT arrangements. The amounts for BOT and TOT arrangements are not yet due for payment and will be settled by revenue to be generated during the operating periods of the arrangements. The amount for BT arrangements will be settled according to respective repayment schedules as stated in the agreements.

As at 30 June 2014, the Target Group had total liabilities of HK$1.9 billion mainly comprising an aggregate amount of HK$681.0 million due to creditors, other payables and accrued expenses, which mainly represent service fees for the operation of waste-water treatment plants and construction payables for the Target Group's BT, BOT and certain Build-Operate-Own arrangements. The construction payables are not yet due for payment. We also note that there are amounts due to immediate holding company, intermediate holding company and fellow subsidiaries of HK$467.4 million. The amounts due to fellow subsidiaries are unsecured, interest free and repayable on demand, except for an amount of HK$282.2 million which bears interest at 100% of the rates announced by the People's bank of China as at 30 June 2014. The amounts due to immediate holding company and intermediate holding company are unsecured, interest free and have no fixed terms of repayment, with the exception of balances of HK$56 million and HK$112.2 million which bear interest at HIBOR +2.5% and 93% of the rates announced by the People's Bank of China respectively as at 30 June 2014, among which HK$87.3 million is repayable within one year and HK$80.9 million is repayable by 2017. We understand that as at 31 December 2013, the parties have agreed not to seek repayment of the amounts within twelve months from the balance sheet date.

The Management have confirmed that based on the representation of the Vendor and the due diligence review conducted by the Company in respect of the Proposed Acquisition, as at the Latest Practicable Date and save for as disclosed in Appendix H and Appendix I of the Circular, the Target Group does not have any material contingent liabilities, and from 31 December 2013 to the Latest Practicable Date, there are no adverse material changes in their financial performance and position.

We wish to highlight to the Independent Directors that the above analysis is not meant to be an indication of, or comment on the Target Group's future profitability, growth prospects, financial position and working capital sufficiency.

(b) Independent Valuation Reports prepared on the Target Group

American Appraisal and Grant Sherman were commissioned respectively by the Company and the Vendor to undertake a valuation of the Target Company on a stand-alone basis (i.e. it does not factor in any benefits that the Company may derive as a result of the Proposed Acquisition). The stand-alone valuations performed separately by American Appraisal and Grant Sherman indicate that the equity value of the Target Company is approximately RMB5.4 billion (being approximately S$1.1 billion) and RMB5.6 billion (being approximately S$1.2 billion) respectively. We note that the Consideration of RMB5,811,267,353 is at a premium of approximately 7.4% and 3.6%, or approximately S$83.4[3] million and S$41.7[3] million (collectively, the "**Independent Valuation Premiums**") respectively over the stand-alone equity valuations performed by American Appraisal and Grant Sherman respectively.

We note that as at the Latest Practicable Date, the Company's share price closed at S$0.875. Taking into consideration an aggregate of approximately 510.5 million Shares of the Company being in issue as at the Latest Practicable Date, the market capitalization value of the Company of approximately S$446.7 million is at a premium of approximately 40.0%, or approximately S$127.6 million ("**Current Market Premium**") over the equity valuation of approximately S$319.1 million based on the Effective Issue Price. Accordingly, we note that the Current Market Premium is higher than the Independent Valuation Premiums.

Shareholders should read the following extracts from the respective Independent Valuation Reports:

(i) American Appraisal Report

"VALUATION METHODOLOGY

In the valuation of the assets, the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to value. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, all three approaches, as any, or perhaps all, may provide reliable measures of value. Cost approach

3 Based on an agreed foreign exchange rate of S$1 : RMB4.7939 as stated in the Circular

established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised. Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. In forming our opinion of fair value of the business enterprise as going concern business, we ***primarily rely on the discounted cash flow analysis under the income approach which better reflects the economic features of the wastewater treatment projects of the Company****.*

Conclusion of Value

Based upon the investigation and discounted cash flow analysis outlined above, it is our opinion that the fair value of the ***business enterprise*** and ***100% equity of CEWIL*** are reasonably represented by the amount of ***Rmb 5.86 billion*** and ***Rmb 5.43 billion*** respectively. The concluded value based on the income approach indicates the implied P/E ratio and EV / Invested Capital ratio of the injected business are 26.10x and 2.99x respectively on controlling basis which is reasonably supported by the median P/E ratio and EV / Invested Capital of 22.0x and 1.84x devised from comparable companies on minority basis."

(ii) Grant Sherman Report

"VALUATION METHODOLOGY

Income Approach

In the income approach, the Discounted Cash Flow ("DCF") method will be used. In this method, the value depends on the present worth of future economic benefits to be derived from the projected income. Thus, an indication of value was developed by discounting future free cash flow available for distribution to their present worth at market-derived rates of return appropriate for the risks and hazards (discount rate) associated with the comparable companies

Market Approach

In the market approach, the Guideline Publicly Traded Company ("GPTC") method will be applied to estimate the value of the Company. In this method, the value is based on prices at which stocks of similar companies are trading in a public market. A "value measure" is usually a multiple computed by dividing the price of the guideline company as of the Appraisal Date by some relevant economic variable observed or calculated from the guideline company's financial statements.

Asset-based Approach

This approach provides an indication of the value of the business enterprise by developing a fair market value balance sheet. All of the assets and the liabilities of the business are identified and listed on the balance sheet, which is not the cost-based balance sheet that is prepared in accordance with accounting principles. The difference between the fair market value of the assets and the liabilities is an indication of the business enterprise equity value under the asset-based approach.

Selection of Valuation Approach

In our opinion, the market approach and asset-based approach are inappropriate for valuing the effective interest in the business enterprise of each of the Project Companies. Firstly, the market approach relies heavily on data from public trading comparable companies, which in this case is difficult to compare since environmental water projects are usually unique due to their specific nature of BOT, BT or BOO, water volume, physical condition, and remaining concession periods. Secondly, asset-based approach does not directly incorporate information about the economic benefits contributed by the Project Companies. It is based on the depreciated replacement costs of their assets. Therefore, this approach often serves as a valuation floor since most companies have greater value as a going concern than they are calculated as depreciated replacement costs of their assets.

*Therefore, **the income approach is the preferable approach for this appraisal**. The fair market value of the effective interest in the business enterprise of each of the Project Companies was developed through the application of the income approach technique known as the DCF Method.*

Fair Market Value of Equity Interest in CEWIL

The calculation of the fair market value of 100% equity interest in the business enterprise of the Subject Company is set out as below:"

	RMB
Equity Value of all projects	*6,049,550,000*
Add: NAV of CEWIL	*5,040,000*
Add: NAV of Qingdao Veolia Water Operating Co. Ltd	*260,000*
Less: Total Debt	*(430,470,000)*
Fair Market Value of Equity Interest in CEWIL	*5,624,380,000*

A copy of the Independent Valuation Reports can be found in Appendix A and B of the Circular. Shareholders are advised to read the Independent Valuation Reports carefully. The Management has confirmed that they have made due and careful enquiries in relying on the assumptions and projections underlying the financial forecast of the Target Group.

We recommend the Independent Directors to advise the Independent Shareholders to read the Independent Valuation Report carefully, in particular the valuation methodology, assumptions and limiting conditions.

(c) Financial assessment of the Consideration vis-à-vis comparable companies of the Target Group

For the purpose of evaluating the Purchase Consideration of the Proposed Acquisition, we have compared the various valuation ratios of the Target Group implied by the Purchase Consideration with those of selected State-Owned Enterprises ("**SOE**") and non-SOE public listed companies on the SGX-ST, the Shanghai Stock Exchange ("**SHSE**"), the Shenzhen Stock Exchange ("**SZSE**") and the Hong Kong Stock Exchange ("**HKSE**") which are engaged in, *inter alia*, the business of waste water treatment, water supply and water treatment which we consider to be broadly comparable to the Target Group ("**Comparable Companies**") to provide an indication of the current market expectations with regard to the perceived valuation of the Target Group.

We recognize that there is no company listed on the SGX-ST or other stock exchanges which we may consider to be identical to the Target Group in terms of, *inter alia*, market capitalization, geographical markets, composition of business activities, scale of business operations, risk profile, asset base, accounting policies, track record, future prospects, market/industry size, political risk, competitive and regulatory environment, financial positions and other relevant criteria.

The Independent Directors should note that the Target Group is involved in, *inter alia*, the business of waste water treatment and has 21 waste-water treatment projects, four (4) reusable water projects, two (2) waste-water source heat pump projects and two (2) BT water projects whilst some of the identified Comparable Companies operate businesses similar to the Target Group as well as other types of water related businesses. Therefore, the comparison made with respect to the Comparable Companies merely serves as an illustrative market valuation of the Group as at the Latest Practicable Date.

In addition, the Independent Directors should note that companies listed on different stock exchanges may be subject to different risk-reward expectations, trading conditions and any cross border valuation statistics will be subject to differing political, regulatory, market, investment, economic and currency conditions and as such may not be directly comparable to the Target Group.

We note that the Vendor is wholly-owned indirectly by CEIL which is a state-owned enterprise ("**SOE**"). Accordingly we have further segregated the Comparable Companies by looking at the ultimate shareholder(s) of the individual companies, i.e. whether they are wholly-owned subsidiaries of any SOE or majority-owned by a shareholder(s) which is linked to any SOE ("**SOE Comparable Companies**") and companies which are owned by shareholder(s) in the private-sector ("**Private Sector Comparable Companies**").

A brief description of the SOE Comparable Companies is set out as follows:

Exhibit 8 — Summary of SOE Comparable Companies

Comparable Companies	Business Activity Description	Financial Year Ended
Beijing Enterprises Water Group Ltd. ("**Beijing Enterprises**")	Beijing Enterprises Water Group Limited, through its subsidiaries, develops water treatment systems. The Group specializes in water services and environmental protection businesses, with waste water treatment as its core business segment.	31 December 2013
Chongqing Water Group Co. Ltd. ("**Chongqing Water**")	Chongqing Water Group Co., Ltd. is a holding company. The Company, through holding subsidiaries, joint ventures and associated companies, produces and sells tap water, collects and treats urban wastewater, and constructs water supply and drainage facilities.	31 December 2013
Jiangxi Hongcheng Waterworks Co. Ltd. ("**Jiangxi Hongcheng**")	Jiangxi Hongcheng Waterworks Co., Ltd. supplies and distributes tap water in Nanchang City, Jiangxi Province.	31 December 2013
Jiangsu Jiangnan Water Company Ltd. ("**Jiangsu Jiangnan**")	Jiangsu Jiangnan Water Company Limited supplies and sells water, provides water drainage and related water treatment services. The Company's scope of business includes the design and technical consulting of water supply engineering, water quality testing, water meter design and testing, investment in public infrastructure industries.	31 December 2013

Comparable Companies	Business Activity Description	Financial Year Ended
SIIC Environment Holdings Ltd. (“**SIIC**”)	SIIC Environment Holdings Ltd. conducts operations in wastewater treatment, water purification treatment, and system automation. The Company procures and installs industrial and municipal wastewater treatment systems, and designs and installs water purification treatment systems. SIIC also designs and implements automated control systems for power plants and wastewater treatment Plants.	31 December 2013

Source: Bloomberg L.P.

A brief description of the Private Sector Comparable Companies is set out as follows:

Exhibit 9 — Summary of Private Sector Comparable Companies

Comparable Companies	Business Activity Description	Financial Year Ended
United Envirotech Ltd. (“**United Envirotech**”)	United Envirotech Limited is an investment holding company. The Company, through its subsidiaries, provides environmental consultancy solutions in the area of environmental health and safety as well as designs and implements integrated environmental engineering solutions based on membrane technology.	31 March 2014
Hyflux Ltd. (“**Hyflux**”)	Hyflux Limited designs, fabricates, installs, commissions, and maintains treatment systems for water purification, wastewater treatment, water recycling, advanced membrane filtration, and high-purity piping systems and equipment hook-up. The Company services its customers in several industries, including the electronics, pharmaceutical, chemical, food and beverage, and biotechnology.	31 December 2013

Comparable Companies	Business Activity Description	Financial Year Ended
China Water Affairs Group Ltd. ("**China Water Affairs**")	China Water Affairs Group Limited, through its subsidiaries, supplies city water and sewage treatment. The Company supplies raw water and tap water, treats sewage, constructs water supply pipe networks, and installs water meters.	31 March 2014
China Water Industry Group Ltd. ("**China Water Industry**")	China Water Industry Group Limited is a water investment and operation and management industry company.	31 December 2013
Sound Global Ltd. ("**Sound Global**")	Sound Global Ltd. provides water and wastewater treatment solutions in China. The Company is involved in engineering, procurement, construction and equipment fabrication. It plans to become an integrated solutions provider through its operations management and build-operate-transfer projects.	31 December 2013

Source: Bloomberg L.P.

In our evaluation, we have considered the following widely used valuation measures:

Exhibit 10 — Summary of valuation ratios considered

Valuation Ratio	Description
Price-to-Earnings ("**P/E**")	PE ratio or earnings multiple is the ratio of a company's market capitalization divided by the historical consolidated net profit attributable to shareholders. The PE ratio is an earnings-based valuation methodology and is calculated based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. It is affected by the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets.
Enterprise value-to-Earnings before interests, taxes, depreciation and amortisation ("**EV/EBITDA**")	EV refers to enterprise value which is the sum of a company's market capitalization, preferred equity, minority interests, short-term and long-term debts (inclusive of finance leases), less its cash and cash equivalents. EBITDA refers to the historical consolidated earnings before interest, taxes, depreciation and amortisation.

Valuation Ratio	Description
	The EV/EBITDA ratio illustrates the ratio of the market value of an entity's business in relation to its historical pre-tax operating cash flow performance. The EV/EBITDA multiple is an earnings-based valuation methodology. The difference between EV/EBITDA and the PE ratio (described above) is that it does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges.
Enterprise value-to-Invested Capital ("**EV/IC**")	IC refers to invested capital, which is the sum of total shareholders' equity and its net debt value. The EV/IC ratio illustrates the ratio of the market value of an entity's business in relation to the book value of the capital invested in the assets. The EV/IC ratio excludes the cash and cash equivalents and therefore places more emphasis on the operating assets of the business.

The valuation ratios of the Comparable Companies based on their respective last traded share prices as at the Latest Practicable Date are set out as follows:

Exhibit 11 — Valuation ratios of SOE Comparable Companies

SOE Comparable Companies	Bloomberg Ticker	Market Cap (S$ million)	LTM EV/EBITDA(2) (times)	LTM EV/IC(3) (times)	P/NAV(4) (times)	LTM P/E(5) (times)
SIIC	SIIC SP	1,620.6	18.9	2.0	1.3	29.4
Chongqing Water	601158 CH	6,152.4	16.1	2.2	2.2	16.4
Beijing Enterprises Water	371 HK	7,874.9	24.1	3.5	2.8	35.5
Jiangxi Hongcheng	600461 CH	710.3	17.7	1.4	1.8	25.7
Jiangsu Water	601199 CH	862.8	14.8	3.6	2.2	25.5
		Max	**24.1**	**3.6**	**2.8**	**35.5**
		Mean	**18.3**	**2.5**	**2.1**	**26.5**
		Median	**17.7**	**2.2**	**2.2**	**25.7**
		Min	**14.8**	**1.4**	**1.3**	**16.4**
CEWIL	**—**	**1,212.2**	**15.1**	**2.2**	**2.5**	**24.2**
HanKore (based on the Implied Valuation)	**HANKORE SP**	**342.0**	**neg(7)**	**1.1**	**1.2**	**neg(7)**

Source: Bloomberg L.P., annual reports and PPCF calculations

Exhibit 12 — Valuation ratios of Non-SOE Comparable Companies

Non-SOE Comparable Companies	Bloomberg Ticker	Market Cap (S$ million)	LTM EV/EBITDA(2) (times)	LTM EV/IC(3) (times)	P/NAV(4) (times)	P/E(5) (times)
United Envirotech(6)	UENV SP	1,333.3	22.7	1.9	2.1	26.7
Hyflux(6)	HYF SP	819.2	8.5	1.1	0.7	12.0
China Water Industry(6)	1129 HK	334.6	10.0	2.1	1.9	19.9
China Water Affairs	855 HK	1,003.6	9.6	1.3	1.1	15.4
Sound Global	967 HK	2,149.7	10.9	2.8	2.7	18.9
		Max	**22.7**	**2.8**	**2.7**	**26.7**
		Mean	**12.3**	**1.8**	**1.7**	**18.6**
		Median	**10.0**	**1.9**	**1.9**	**18.9**
		Min	**8.5**	**1.1**	**0.7**	**12.0**
CEWIL	**—**	**1,212.2**	**15.1**	**2.2**	**2.5**	**24.2**
HanKore (based on the Implied Valuation)	**HANKORE SP**	**342.0**	**neg(7)**	**1.1**	**1.2**	**neg(7)**

Source: Bloomberg L.P., annual reports and PPCF calculations

Notes:

(1) LTM means last twelve months, N.A. means not applicable, N.M. means not meaningful and neg means negative.

(2) The EV/EBITDA ratio of the Singapore, PRC and HK Comparable Companies is calculated based on (i) the sum of their respective market capitalization as at the Latest Practicable Date and bank borrowings, less cash, and (ii) their EBITDA based on their latest available interim financial statements.

(3) EV/IC ratio is calculated based on the EV as stated above, and the sum of total Shareholders' equity and net borrowings as stated in the latest available financial results.

(4) The P/NAV is ratio is calculated based on the latest available financial results as announced on the SGX-ST, SHSE and HKSE. In respect of the Company, the P/NAV ratio is based on the Company's latest audited NAV of S$290.1 million as at 30 June 2014.

(5) The P/E ratio of the Singapore, PRC and HK Comparable Companies is calculated based on the latest available interim financial statements as announced on the respective stock exchanges as at the Latest Practicable Date. The P/E ratio of the Company is based on the latest available interim financial statements of the Company as at 30 June 2014. Based on the latest available interim financial statements of the Company as at 30 June 2014, we note that the P/E ratio of the Company as at is not applicable as the Company was loss-making.

(6) We note that United Envirotech, Hyflux and China Water Industry derive their revenue largely from the construction segment, amounting to approximately 69%, 92% and 64% of revenue respectively as stated in the latest available financial statements.

(7) The EV/EBITDA and P/E ratios of the Company are calculated based on the restated 6M2014 LTM net profit available to Shareholders as provided by the Company.

Comparison with SOE companies

Based on the above, we note the following:

(a) The EV/EBITDA ratio implied by the Consideration of 15.1 times is within the range of EV/EBITDA ratios of the SOE Comparable Companies and is lower than both the mean and median EV/EBITDA ratios of 18.3 times and 17.7 times respectively.

(b) The EV/IC ratio implied by the Consideration of 2.2 times is within the range of EV/IC ratios of the SOE Comparable Companies and is lower than the mean EV/IC ratio of 2.5 times and equal to the median EV/IC ratio of 2.2 times.

(c) The P/NAV ratio implied by the Consideration of 2.5 times is within the range of the P/NAV ratios of the SOE Comparable Companies and is higher than both the mean and median P/NAV ratios of 2.1 times and 2.2 times respectively.

(d) The P/E ratio implied by the Consideration of 24.2 times is within the range of the P/E ratios of the SOE Comparable Companies and is lower than both the mean and median P/E ratios of 26.5 times and 25.7 times respectively.

Comparison with non-SOE companies

Based on the above, we note the following:

(a) The EV/EBITDA ratio implied by the Consideration of 15.1 times is within the range of EV/EBITDA ratios of the non-SOE Comparable Companies and is higher than both the mean and the median EV/EBITDA ratios of 12.3 times and 10.0 times respectively.

(b) The EV/IC ratio implied by the Consideration of 2.2 times is within the range of EV/IC ratios of the non-SOE Comparable Companies and is higher than both the mean and median EV/IC ratios of 1.8 times and 1.9 times respectively.

(c) The P/NAV ratio implied by the Consideration of 2.5 times is within the range of the P/NAV ratios of the non-SOE Comparable Companies and is higher than both the mean and median P/NAV ratios of 1.7 times and 1.9 times respectively.

(d) The P/E ratio implied by the Consideration of 24.2 times is within the range of the P/E ratios of the non-SOE Comparable Companies and is higher than both the mean and median P/E ratios of 18.6 times and 18.9 times respectively.

(d) Financial assessment of the Consideration vis-à-vis comparable precedent transactions

In our assessment of the Purchase Consideration, we have considered a comparison of the valuation ratio of the Target Group as implied by the Purchase Consideration against similar precedent transactions involving water treatment projects in the PRC which were completed since 21 May 2007.

However, due to a lack of publicly available information concerning such precedent transactions, and taking into consideration feedback from the Management, we have not included the findings in this letter as we note that such a comparison may not be applicable, given that the target company(ies)/asset(s) involved in the precedent transactions would not be directly comparable to the Target Group in terms of, *inter alia*, market capitalization, size of operations, clientele base, composition of business activities, asset base, geographical spread, track record, operating and financial leverage, risk profile, liquidity, accounting policies, future prospects and other relevant criteria.

In addition, the consideration(s) paid would depend on various factors, including the existing level of control in the target company, the level of control required, potential synergy, prevailing market conditions, size of consideration, type of consideration offered and general economic and business risks. Accordingly any comparison made with respect to similar precedent transactions would merely be for illustrative purposes and would not serve as a meaningful basis to enable the Independent Directors to evaluate and making a recommendation to the Independent Shareholders.

7.5 Financial Effects of the Proposed Acquisition on the HanKore Group

The pro forma financial effects of the Proposed Transactions are set out in Appendix C of the Circular for illustrative purposes only and based on the Non-Statutory Annual Report and the audited consolidated financial information of the Target Group for the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 and taking into account certain assumptions and anticipated effects. It should be noted that the Company's current financial year end falls on 30 June, whereas the Target Company's financial year end falls on 31 December. We recommend that the Independent Directors advise the Independent Shareholders to read Appendix C of the Circular carefully, in particular the assumptions relating to the preparation of the financial effects.

We set out below a summary of the financial effects of the Proposed Transactions.

(i) Earnings Per Share

Assuming that the Proposed Transactions were completed on 30 December 2013, the earnings per Share for the FY2013 would improve from HK$0.08 to HK$0.10 due to the improved financial performance of the Enlarged Group.

(ii) NTA per Share

Assuming that the Proposed Transactions were completed on 30 December 2013, the HanKore Group's NTA per Share would have decreased from HK$3.23 to HK$1.89 due mainly to the dilutive effect on the NTA per Share as a result of the issuance of the Consideration Shares.

(iii) Gearing

Assuming that the Proposed Transactions were completed on 30 December 2013, the HanKore Group's gearing would have improved from 0.48 times to 0.23 times mainly attributable to the lower amount of debt on the balance sheet of the Target Company as well as the increase in shareholders' equity.

Shareholders should note that the above analysis has been prepared solely for illustrative purposes only and does not purport to be indicative or a projection of the results and financial position of the Company and the Group after the completion of the Proposed Transactions.

7.6 Past substantial acquisitions of investments involving the Shares of the Company

We have identified one (1) previous acquisition of waste-water investments carried out by the Company which involved Shares of the Company and have reviewed publicly available information on the aforesaid precedent transaction as summarized below:

(i) JTEE Acquisition

On 30 November 2012, the Company announced that it had entered into an acquisition agreement with Jiangsu Tongyong Environment Group Co., Ltd., Zhang Juping, Zhang Mingyin (collectively, the "**Jiangsu Vendors**") and JTEE to acquire the entire issued share capital of the Jiangsu Target. Pursuant to the terms of the acquisition agreement, the parties had agreed, *inter alia*, that the consideration payable for the shares in JTEE shall be RMB138 million (or approximately S$227.1 million subject to certain adjustments set out in the announcement).

The consideration would be paid by the issue of new ordinary Shares in the Company amounting to an aggregate of 540 million Shares computed based on a pre-determined formula and the share price was set at S$0.05 ("**Consideration Price**"). We note that the JTEE Acquisition was completed in FY2013.

While we note that the Effective Issue Price is higher than the Consideration Price, the Independent Directors should note that certain circumstances and terms relating to the JTEE Acquisition made by the Company is unique and is not be identical to the Proposed Acquisition as JTEE is an EPC company primarily engaged in the equipment manufacturing, sales designing and construction of environmental engineering in the environmental protection sector in the PRC. Additionally, such circumstances and terms relating to the JTEE Acquisition were largely dependent on the market sentiments prevailing at that time. Consequently, the Independent Directors should note that the above summary is merely for illustrative purposes and serves as a general guide only.

7.7 Acquisition of additional water investments by the Target Company

On 24 July 2014, CEIL announced that the Target Company had entered into agreements to acquire a 78% equity interest in Qingdao Veolia Water Operating Company Limited ("**Qingdao Veolia**") and a 40% equity interest in EB-VW HK Holding Company Limited ("**EB-VW**") from Veolia Water S.A. ("**Veolia**"), a French company, for a total consideration of RMB92 million ("**Qingdao Project Acquisition**"). After the completion of the Qingdao Project Acquisition, the Target will hold a 99% equity interest in Qingdao Veolia and wholly own EB-VW. EB-VW will hold a 60% equity interest in Qingdao EB-VW Waste Water Treatment Co. Ltd ("**Qingdao EB-VW**").

Qingdao Veolia and Qingdao EB-VW are mainly responsible for the management and operation of the Qingdao Waste Water Treatment Project (Haibohe and Maidao Plants) ("**Qingdao Project**"), which is one of the BOT/TOT projects currently owned by the Target Group. After the Qindao Project Acquisition, the daily waste-water treatment capacity of the Qingdao Project will increase to 300,000 m^3. Additionally, the Qingdao Project will be mainly managed by the Target Company and it is expected that operation efficiency will be further improved.

We note that on an annual basis, the Qingdao Project Acquisition would increase the annual waste-water treatment capacity of the Qingdao Project by approximately 29,200,000 m^3 or approximately 4.3% of the total annual waste-water treatment capacity of the Target Group's projects. Notwithstanding the increase in the waste-water treatment capacity of the assets held by the Target Company, we understand that the Consideration payable by the Company for the Purchase of the Sale Shares remains unchanged.

8. OTHER RELEVANT CONSIDERATIONS IN RELATION TO THE PROPOSED ACQUISITION

(a) Analysis of the shareholding impact of the Proposed Acquisition

(i) **Dilution impact of the Proposed Acquisition**

As at the Latest Practicable Date, the issued share capital of the Company comprises 510,482,894 Shares. There are 263,462 outstanding warrants and 36,508,617 outstanding share options under the employee share option scheme of the Company as at 30 June 2014, which could be exercised to subscribe for a total of 36,772,079 new shares in the Company. The outstanding warrants relate to convertible bond warrants issued by the Company on 26 April 2010 which can be exercised at an exercise price of S$0.025 for one ordinary share. The exercise period is five (5) years, expiring on 26 April 2015.

The interests of Giant Delight Holdings Limited ("**Giant Delight**"), Wang Yu Huei and FIL Limited (collectively, the "**Substantial Shareholders**") of the Company and the other existing Shareholders in the issued Shares as at the Latest Practicable Date are set out in the table below.

Following the Proposed Share Consolidation and after the allotment and issuance of 1,940,269,305 Consideration Shares to the Vendors and/or their designated holders, the Company will have an enlarged issued share capital of 2,487,524,788 Shares after the Proposed Acquisition.

Exhibit 14 — Summary of dilution impact of the Proposed Acquisition

	After Proposed Share Consolidation but before the Proposed Acquisition		After the Proposed Acquisition	
	No. of Shares	%	No. of Shares	%
Giant Delight [(1)]	84,189,596	16.49	84,189,596	3.38
Wang Yu Huei	71,610,700	14.03	71,610,700	2.88
FIL Limited	38,295,000	7.50	37,416,500	1.54
Ancient Jade Intl Holdings	22,341,333	4.38	22,341,333	0.90
Other existing Shareholders	294,046,265	57.60	294,046,265	11.82
Vendors	—	0.00	1,940,269,305	78.00
Exercise of warrants and share options outstanding as at 30 June 2014	—	0.00	36,772,079	1.48
	510,482,894	100.00	2,487,524,278	100.00

Notes:

(1) Mr David Chen Dawei, the Executive Chairman of the Company, is deemed interested in the Shares held by Giant Delight.

Based on the above, upon the completion of the Proposed Acquisition and assuming the exercise of all warrants and share options outstanding as at 30 June 2014, the Concert Parties Group will collectively hold Shares representing 78.00% of the Enlarged Shares Capital, the Substantial Shareholders will have their direct shareholding interest decreased from 38.02% to 7.80%, and the other existing Shareholders would have their aggregate shareholding interests diluted from 61.98% to 12.72%.

(ii) **Scenario analysis of dilution impact based on comparative financial ratios**

The allotment and issuance of the Consideration Shares to the Vendor will result in the Concert Parties Group collectively holding 78.0% of the Enlarged Share Capital. As mentioned in section 2.3 of the Circular, we note that "*The Consideration was agreed on a willing-buyer and willing-seller basis after arms length negotiations. In arriving at the Consideration, the Company has considered, inter alia, (i) the respective and combined market positions of the Company and the Target Company; (ii) the quality of the respective assets and business conditions of the Company and the Target Company; (iii) the respective financial positions of the Company and the Target Company; (iv) the future benefits and synergies expected to be created as a result of the Proposed Acquisition as set out in Section 2.1 (Rationale for the Proposed Acquisition) above; and (v) current prevailing industry and market conditions, and also with reference to the valuations of the Target Company by the Independent Valuers.*".

We note that the Proposed Acquisition involves the acquisition of the entire Target Group which comprises the operating assets held by it as well as the financial performance of the Target Group including, *inter alia*, the level of profits and cash flows derived from its operations. Accordingly, we have looked at selected key financial ratios of both the Company and the Target Group which we feel are indicative of their asset quality, business conditions and financial positions, in order to determine the theoretical dilution impact by using the relevant financial ratios as a basis for presenting the relative shareholding percentages of the Shareholders and the Vendor in each scenario. Exhibit 15 sets out a comparison of the selected financial ratios of the Company and the Target Company as well as the corresponding shareholding swap ratios:

Exhibit 15 — Comparison of the financial ratios of the Company and the Target Company

	Proposed Acquisition (no. of shares) ('000)	Based on NAV (RMB'000)	Based on Net Profits (attributable to shareholders for FY2013) (RMB'000)	Based on Net Profits (attributable to shareholders for 6M2014) (RMB'000)	Based on EBITDA for FY2013 (RMB'000)	Based on EBITDA for 6M2014 (RMB'000)
Company	547,254	1,443,557	27,685	(96,913)	115,022	(42,161)
Target Company	1,940,269	2,621,280[1]	212,610[1]	131,965[2]	391,849	230,674[2]
Consolidated	2,487,523	4,064,837[1]	240,295[1]	35,052[2]	506,871	188,513[2]
Shareholding percentage (%):						
Existing Shareholders	22.0	35.5	11.5	N.M.[2]	22.7	N.M.[2]
Vendor	78.0	64.5	88.5	N.M.[2]	77.3	N.M.[2]

Notes:

(1) Converted based on the average foreign exchange rate of RMB1 : HK$1.2534 for FY2013 as stated in the Acquisition Announcement

(2) Converted based on the average foreign exchange rate of RMB1 : HK$1.2579 for 6M2014 as stated in the Circular

(3) N.M. means not meaningful

Based on the above, we note the following:

a. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the NAV, which is a measure of the respective book value of the assets held by the Target Company and the Company, the Existing Shareholders would receive a shareholding percentage of 35.5% which would have been more favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

b. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the respective net profitability of the Target Company and the Company for FY2013, the Existing Shareholders would receive a shareholding percentage of 11.5% which would have been less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

c. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the respective net profitability of the Target Company and the Company for 6M2014, the shareholding percentage which the Existing Shareholders would receive would not be meaningful as the HanKore Group achieved a net loss earnings position for 6M2014, hence this would be less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

d. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the EBITDA for FY2013, which is a measure of the respective operating cash flows of the Target Company and the Company, the Existing Shareholders would receive a shareholding percentage of 22.7% which would have been more favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares; and

e. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the EBITDA for 6M2014, the shareholding percentage which the Existing Shareholders would receive would not be meaningful as the HanKore Group achieved a negative EBITDA for 6M2014, hence this would be less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares.

In summary, we note that while a comparison of the NAV ratios of the Target Company and the Company, Existing Shareholders would theoretically experience a smaller dilution of their shareholding in the Company. However, based on a comparison of the net profit or EBITDA financial ratios of the Target Company and the Company, Existing Shareholders would have experienced a greater dilution of their shareholding in the Company.

We wish to highlight that the above computations and analysis are meant as an illustration and does not necessarily mean or imply that the respective shareholding ratios of the Shareholders and Vendor can necessarily be achieved in each respective scenario after completion of the Proposed Transactions. We wish to emphasise that our analysis has ignored various other factors, including, *inter alia*, the existing level of control in the Target Company, the respective and combined market positions of the Company and the Target Company, future benefits and potential synergies derived as a result of completion of the Proposed Acquisition, current prevailing industry and market conditions, quality of assets held by the Company and the Target Company, and general economic and business risks. As such, any comparison made with is intended to serve as an illustrative guide only.

(b) Prospects, Trend Information, Strategy and Future Plans of the Enlarged Group

Following the completion of the Proposed Acquisition, the prospects, trend information, strategy and future plans of the Enlarged Group will materially be those of the Target Group, further details of which are set out in section 6.18 of the Circular. The Shareholders are advised to read the information carefully.

(c) Risk Factors

Upon completion of the Proposed Acquisition, the risk factors relating to the Target Group will also be relevant to the Enlarged Group. Such risk factors will include those relating to the Target Group's business, operations and industry (as set out in Appendix E of the Circular), and Shareholders are advised to read the information carefully.

(d) Synergies derived from the combination of businesses in the Enlarged Group

(i) **Economies of scale derived from BOT business model**

Following the completion of the Proposed Acquisition, it is expected that the Company will derive a significant proportion of its revenue from BOT/TOT wastewater treatment services. We understand that the greater focus on the BOT/TOT business model is in line with the Management's strategy of expanding the Company's core business, with the combination of the EPC business from the JTEE Acquisition serving to enhance the Company's product value chain and market competitiveness.

We note that the BOT/TOT project business model differs from the EPC project business model in terms of risk profile and the operational and financial requirements placed on the Enlarged Group. We have summarized the key differences as set out below:

	BOT/TOT business project	EPC business project
Service arrangements	Service concession arrangements with government agencies to construct and subsequently operate the water/wastewater treatment plants for a fixed concession period. At the end of the period, the operator will transfer the plant back to the government at little or nil consideration	Contractor is appointed to design the water/wastewater treatment plant, procure the necessary materials and construct the project either directly or by subcontracting part of the work to external third parties.
Duration	• Construction phase of 12 to 18 months • Concession period of 25 to 30 years	• Construction phase of 12 to 18 months
Capital requirement	• Highly capital intensive • All relevant design, construction and operating costs of the treatment facilities are borne solely by the operator • Long payback periods	• Low working-capital requirements • Typically funded by up-front-payments from the customer, subsequent installment payments during the construction phase and the contractor's internal resources

	BOT/TOT business project	EPC business project
Sources of funding	• Typically no payment is received during the construction phase • Operator receives regular, typically monthly, payments from the government agency based on a contractually agreed water tariff and the volume of water treated upon commencement of operations of the facility • Operator is responsible for all of the costs of repair and maintenance of the treatment facility during the concession period	• Receive 20% to 30% of project value at the point of contract signing • Progressive instalment payments are made during the construction phase, culminating in 55% to 70% of the project value received by completion • Balance of 30% to 45% receivables to be collected typically within a year later upon expiry of the warranty period
Revenue recognition	• Based on percentage of completion of the project during the construction phase • Revenue received during the construction phase is accounted for as a service concession receivable to be settled throughout the concession period • Revenue from the operational phase is recognized based on receipt of water tariff payments	• Based on percentage of completion of the project commencing when a contract is signed and when total construction costs of the facility under development can be reliably estimated
Risk	• Higher risk profile	• Lower risk profile

We understand that the Enlarged Group will have a higher quality revenue stream as a result of its strong reliance on BOT/TOT wastewater treatment services, which provide a recurring source of revenue due to the operation of the facilities during the service concession period as compared to the EPC turnkey services whose revenue stream is more lumpy and volatile as such services are provided on a project basis. We also note that the wastewater treatment business of HanKore is more profitable and achieved a higher gross profit margin of approximately 25.6% and 9.1%, for FY2013 and 6M2014 respectively, as compared to the EPC business of approximately 0.6% and a loss for the corresponding financial periods.

We also understand that China has a very fragmented water sector where the top ten (10) players hold approximately 10% of the total market share in the industry based on their production capacity. We have indicated the key players in the China water sector as set out below:

Exhibit 16 — Summary of top key players in China's water industry

Key players in the China water sector	**Capacity (million tons/day)**
Beijing Capital Co	14
Veolia (China)	13.2
Beijing Enterprise Water	~12.6
General Water of China	5.5
Wuhan Water	5.2
Chongqing Water	~4.0
Tianjin Capital Environment	3.7
SIIC Environment	3.4
Chengdu Xingrong	3.4
Sound Group	2.7
Shenzhen Water Group	2.7
China Everbright Int'l	~2
Guozhen Environment Protection	1.4

	Pre-Acquisition (tons/day)	**Post-Acquisition (tons/day)**
HanKore	**~1.6 million**	**3.6 million (water)**

Source: Bloomberg L.P. and other broker reports

We note that the Company will be well positioned as a key player in the China water sector after the completion of the Proposed Acquisition. As indicated above, the Company's daily production capacity will increase substantially from approximately 1.6 million tons per day to 3.6 million tons per day after completion. The increase in daily production capacity will enable it to enjoy various economies of scale through better operating efficiency and potentially lower funding costs as mentioned above.

(ii) **Positive industry growth prospects expected to compliment the BOT business expansion**

According to the industry overview sections of the respective Independent Valuation Reports, we note that there remains a severe water shortage problem in China given the recent increasing trend of urbanization and industrialization. In addition, this combination of factors has resulted in increased water pollution and waste discharge, with "*over 30% of the country's rivers and over 50% of groundwater are below national water quality standards. Out of the 1,200 rivers being monitored, 850 are contaminated, and over 90% of watershed were contaminated.*" as indicated by Grant Sherman.

We note that according to the Independent Valuation Reports, the PRC government has implemented key policies in recent years to promote and formulate guidelines and regulations in relation to environmental protection and energy savings. In particular, Grant Sherman mentioned that "*According to the 12th Five-Year Plan, China aims to improve its rate of treating waste water to 85% in urban areas, 70% in country-level cities and countries and 30% in towns by 2015. From 2011 to 2015, the government is expected to invest RMB430 billion in the waste water treatment industry.*" Accordingly waste water tariff increase in China has been more aggressive than that of water tariff in general, tracking oil and housing prices. We understand that the Directors are also of the opinion that the Company is set to benefit from rising water tariffs and more stringent discharge standards, as evidenced in the following excerpt from the Company's annual report for the financial year ended 30 June 2013:

"*According to the 12th Five-Year Plan, China's wastewater treatment industry will gradually shift its emphasis from the rapid development of wastewater treatment plants to the upgrading and enhancement of the in-depth operations of these plants. Along with the improvement of the facilities of wastewater treatment plants, higher capabilities of sludge treatment and more stringent water discharge standards set by the Chinese government, we foresee higher water tariffs as an inevitable trend that will significantly benefit the Group.*"

We note that during the financial year ended 30 June 2013, six (6) of the HanKore Group's water plants had received the green light to raise their water discharge fees by approximately 20% - 60%. According to the global water tariff survey conducted by the Organization for Economic Co-operation and Development in 2010, the average water and sewage tariffs in China combined stood at US$0.42 per cubic meter as compared to the global average of US$1.543 per cubic meter. Based on the results obtained, it should be noted that China's water tariffs is deeply undervalued or at a discount of approximately 73% to the average tariff rates in other countries.

In the wake of such a trend of water price inflation, this would provide opportunities for organic growth that would benefit wastewater treatment companies. In particular, as a result of the Proposed Acquisition, the revenue stream of the Enlarged Group would be heavily reliant on recurring water / wastewater treatment tariffs as part of the acquisition of the BOT/TOT wastewater treatment plants and the provision of BOT/TOT wastewater treatment services. Accordingly, the Directors believe that the Enlarged Group would be well-positioned to capitalize on this trend to deliver greater returns for the Company's Shareholders.

(iii) **Strong support and partnership with CEIL**

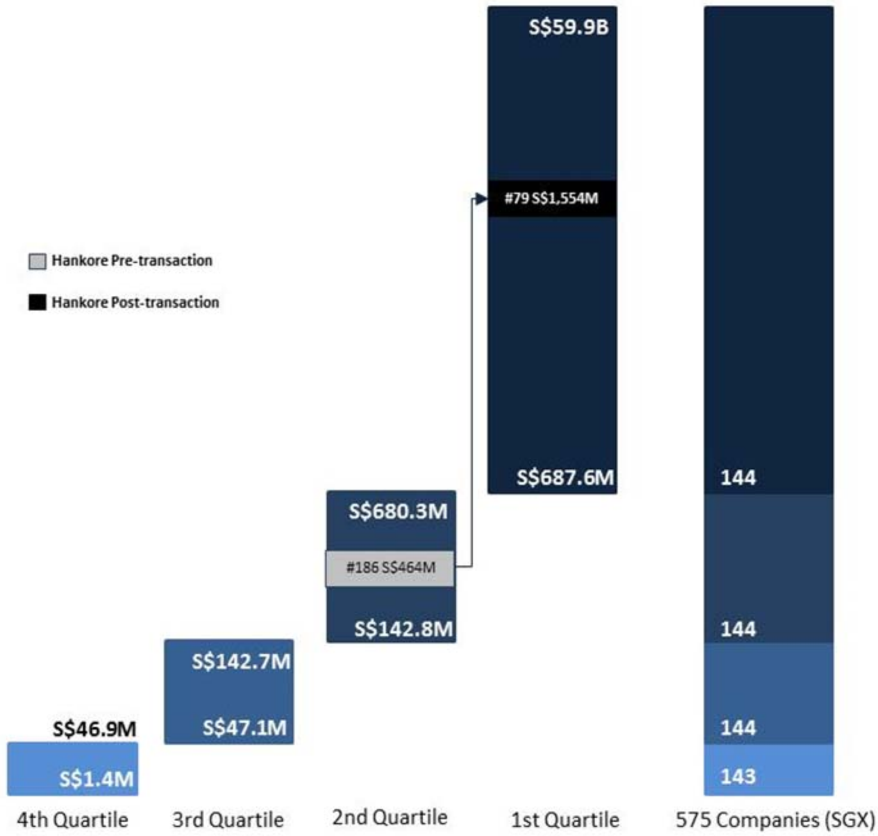
We note that upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor will hold approximately 78% of the Enlarged Share Capital. Accordingly, as the Vendor is wholly-owned indirectly by CEIL, CEIL will effectively become the single largest controlling shareholder of the Company.

CEIL is an SOE with businesses focusing on environmental protection and alternative energy projects. Its projects mainly include waste-to-energy, methane-to-energy, biomass power generation, solar photovoltaic energy, industrial solid waste and hazardous waste treatment, wastewater treatment and reusable water etc. CEIL has a strong portfolio of environmental water treatment assets which has positioned it as amongst the top 20 players in China's water industry in terms of wastewater treatment capacity as indicated in Exhibit 16 above, and which will be injected into the Company as part of the Proposed Acquisition.

We understand that the water / wastewater treatment industry is capital-intensive, and there is an emphasis on having access to a wide range of funding sources in order for companies operating in this industry to generate substantial returns. The Directors note that the larger and public-listed companies which are typically SOEs have greater access to cheap funding as compared to smaller players who would have to rely mainly on onshore borrowings and a higher funding cost. As Chinese banks continue to tighten the credit supply, access to funding may not be so readily available. In addition, higher capital expenditure requirements for massive upgrading works in order to comply with the higher water disposal standards may also result in smaller players with limited funding sources being forced out of the market. We further understand that the government is the main driver in China's water sector, and the BOT/TOT water/ wastewater service concession agreements are entered into with the individual local governments, whom also regulate the water tariff collections. As such, SOEs would have stronger bargaining power in the negotiation of water projects while being able to maintain low financial costs.

The Directors are of the opinion that the Proposed Acquisition is not just an acquisition of water assets but rather a merger of the Company with CEIL as a strong business partner and a SOE. In particular, we note that the Executive Chairman of the Company, Mr Chen Dawei, mentioned in an interview with the Edge magazine that "*As a guide, the International Finance Corp, who counts itself as a major lender to CEI offers 10-year loans to CEI at just 2.25%, resulting in an average financing cost of 4% versus HanKore's 7-8%.*" This access to a larger pool of cheap funding, coupled with the economies of scale mentioned above in relation to better operating efficiency, a stronger operational footprint and track record in new regions in China, would give the Company a competitive edge and enhance its position in bidding for water project tenders and/or negotiating with the local governments in China.

(e) Market Capitalization ranking on the SGX-ST



	Pre-Acquisition	Post-Acquisition	Post-Acquisition (based on share price as at LPD)
Number of Shares	510,482,894	2,487,524,278	2,487,524,278
Market Capitalization of the Company	408,386,315[1]	1,554,702,673[2]	2,176,583,743[3]
Ranking on SGX	182	79	66
Quartile	2nd Quartile	1st Quartile	1st Quartile

1 Calculated based on the total number of Shares of the Company being in issue and the share price of the Company as at 27 December 2013, being the last trading day prior to the announcement of the Framework Agreement.

2 Calculated based on the total number of Shares of the Company being in issue as at the Latest Practicable Date and the Effective Issue Price

3 Calculated based on the total number of Shares of the Company being in issue and the share price of the Company as at the Latest Practicable Date.

Notes:

(1) Ranked according to market capitalization in relation to all listed companies on the Mainboard of the Singapore Stock Exchange (SGX-ST), excluding American Depositary Receipts, Global Depositary Receipts, dual currency traded stocks and stock indices.

(2) Companies separated equally into four (4) quartiles with the top 25% largest companies by market cap in the first quartile, the next 25% in the 2nd quartile and so on.

(3) Post-Acquisition market cap is calculated based on the total 2,487,524,278 post-Acquisition number of shares (assuming the exercise of warrants and share options outstanding as at 30 June 2014) and based on the Implied Valuation.

Based on the above, upon the completion of the Proposed Acquisition, the Company would be ranked among the top 100 companies by market capitalization listed on the SGX-ST Mainboard, with a market capitalization of approximately S$1.55 billion if based on the Implied Valuation and approximately S$2.18 billion if based on the share price of the Company as at the Latest Practicable Date, and accordingly registering an improvement from a pre-Proposed Acquisition ranking of 186 to a post-Proposed Acquisition ranking of 79 and 66 based on the Effective Issue Price and the share price as at LPD respectively.

(f) Undertaking Letters

Each of Giant Delight and Ancient Jade International Holdings Limited ("**Ancient Jade**"), holding approximately 84,189,596 and 22,341,333 Shares in the Company or approximately 16.33% and 4.38% of the total issued and paid-up share capital of the Company respectively, has on 6 January 2014 executed an undertaking letter in favour of the Target Company undertaking not to dispose of or otherwise deal with all or any of its shares in the Company on or before the Completion and the allotment and issue of the Consideration Shares; provided that it may acquire any shares in the Company at any time whether in the open market or by other means. We note that Chen Dawei, David is deemed to be interested in all the shares held by Giant Delight.

(g) Receipt of in-principal approval from the SGX-ST

On 10 November 2014, the SGX-ST granted in-principle approval for the listing and quotation of the Consideration Shares. The in-principle approval granted is subject to, amongst others, the conditions set out in section 2.9 of the HanKore Letter, and Shareholders are advised to read the information carefully.

(h) Moratorium

The following has been extracted from section 6.5 of the HanKore Letter and has been reproduced in italics below. Shareholders are advised to read the extract below:

"*Subject to certain exceptions set out below, the Vendor has agreed with the Financial Adviser that it will not, without the prior written consent of the Financial Adviser, during the period commencing from the date hereof until the date falling 6 months after the date of listing of the Consideration Shares on the Singapore Exchange Securities Trading Limited (the "**Listing Date**") (both dates inclusive) (the "**Lock-up Period**"), directly or indirectly (a) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of its effective interest in the Shares which it legally and/or beneficially, directly and/or indirectly, owns or will* *own immediately after the completion of the Proposed Acquisition (the "**Lock-up Shares**") (including any interests or securities convertible into or exchangeable for Lock-Up Shares or which carry rights to subscribe for or purchase any Lock-Up Shares); (b) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing; (c) deposit any or all Lock-up Shares in any depository receipt facility; (d) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or (e) publicly announce any intention to do any of the above.*

Subject to the approval of the SGX-ST, the restrictions described above do not apply to prohibit the Vendor from:

(a) creating a charge over the Lock-Up Shares or otherwise granting of security over or creating any encumbrance over the Lock-up Shares, provided that such charge, security or encumbrance can only be enforced after the Lock-Up Period. The charge, security or encumbrance will only be created if the chargee (such as a bank or financial institution) agrees that the charge, security or encumbrance over any Lock-Up Shares cannot be enforced over the Lock-Up Shares during the Lock-up Period; or

*(b) transferring the Lock-Up Shares to and between wholly-owned subsidiaries of the Vendor (the "**Transferee Subsidiaries**"), provided that:*

(i) the Vendor has executed and delivered to DBS an undertaking to the effect that for the unexpired period of the Lock-Up Period, it will not, without the prior written consent of DBS, directly or indirectly:

(1) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of its shares in the Transferee Subsidiaries (including any interests or securities convertible into or exchangeable for shares in the Transferee Subsidiaries or which carry rights to subscribe for or purchase any shares in the Transferee Subsidiaries);

(2) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing;

(3) deposit any of shares in the Transferee Subsidiaries in any depository receipt facility;

(4) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or

(5) publicly announce any intention to do any of the above; and

(ii) the Vendor has procured that each of the Transferee Subsidiaries have executed and delivered to DBS Bank an undertaking to the effect that the Transferee Subsidiaries will comply with the restrictions above in respect of the Lock-Up Shares for the unexpired period of the Lock-Up Period.

*Each of CEIL (being the sole legal and beneficial owner of the entire issued share capital in CEEPH) and CEEPH (being the sole legal and beneficial owner of the entire issued share capital of the Vendor) has agreed with the Financial Adviser that, subject to certain exceptions set out below, it will not, without the prior written consent of the Financial Adviser during the Lock-Up Period (such consent not to be unreasonably withheld or delayed), directly or indirectly, (a) offer, issue, sell, contract to issue or sell, grant any option to purchase, grant security over, encumber or otherwise dispose of or transfer, any of their shares in CEEPH or the Vendor (whichever is applicable), which shall comprise 100.0% of the issued shares in CEEPH (such shares in CEEPH, the "**CEEPH Lock-Up Shares**") or the Vendor (such shares in the Vendor, the "**Vendor Lock-Up Shares**"), whichever is applicable (including any interests or securities convertible into or exchangeable for CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable) or which carry rights to subscribe for or purchase any CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable)); (b) enter into any transaction (including a derivative transaction) with a similar economic effect to the foregoing; (c) deposit any of the CEEPH Lock-Up Shares or Vendor Lock-Up Shares (whichever is applicable) in any depository receipt facility; (d) enter into a transaction which is designed or which may reasonably be expected to result in any of the above; or (e) publicly announce any intention to do any of the above.*

Subject to the approval of the SGX-ST, the restrictions above do not apply to prohibit:

(a) CEIL from creating a charge or allowing an existing charge over the CEEPH Lock-Up Shares to subsist, provided that such charge cannot be enforced with respect to any Vendor Lock-Up Shares during the Lock-Up Period. The charge will only be permissible if the chargee (such as a bank or financial institution) agrees that the charge over the Vendor Lock-Up Shares cannot be enforced over any Vendor Lock-Up Shares during the Lock-Up Period; and

(b) CEEPH from creating a charge or allowing an existing charge over the Vendor Lock-Up Shares to subsist, provided that such charge cannot be enforced with respect to any Vendor Lock-Up Shares during the Lock-Up Period. The charge will only be permissible if the chargee (such as a bank or financial institution) agrees that the charge over the Vendor Lock-Up Shares cannot be enforced over any CEWHL Lock-Up Shares during the Lock-Up Period.

(i) Dividend track record of the Enlarged Group

We note that the Company has not distributed any dividends in FY2012, FY2013 and FY2014 respectively. We also understand from the Directors that the Company does not have any formal dividend policy.

The dividend policy of the Enlarged Group is set out in section 6.19 of the HanKore Letter and as extracted below:

"The Company has not distributed any dividends in FY2012, FY2013 and FY2014 respectively. The Company currently does not have a formal dividend policy. The Company in general meeting may, subject to the Bye-laws of the Company and in accordance with the Companies Act 1981 of Bermuda, declare a dividend or such other distribution to be paid to the shareholders but no dividend or distribution shall be declared

by the Company in general meeting in excess of the amount recommended by the Board. In addition, the Company shall not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the Company's assets would thereby be less than its liabilities.

The Target Company has not distributed any dividends in FY2011, FY2012 and FY2013, respectively. The Target Company currently does not have a dividend policy.

There can be no assurance that dividends will be paid in the future or on the amount or timing of any dividends that may be paid in the future. The declaration and payment of any future dividends will depend upon factors such as operating results, financial position, cash requirements, expansion plans as well as any other factors deemed relevant by the new Board.

The Enlarged Group may, by ordinary resolution of the Shareholders at a general meeting, declare dividends but the amount of such dividends shall not exceed the amount recommended by the new Board. The new Board may also declare interim dividends without seeking Shareholders' approval.

Shareholders and potential investors should note that all the foregoing statements are statements of the intention of the Board and shall not constitute legally binding statements in respect of future dividends which may be subject to the sole and absolute discretion of the Enlarged Group Directors. No inference should or can be made from any of the foregoing statements as to actual future profitability of the Enlarged Group or the ability of the Enlarged Group to pay dividends in the future."

Shareholders and potential investors should note that there can be no assurance that dividends will be paid in the future or on any amount or timing of any dividends that may be paid in the future. The declaration and payment of future dividends will be determined at the sole discretion of the board of directors of the Enlarged Group, subject to the approval of Shareholders.

(j) Alternative acquisition proposals or investment opportunities

The Proposed Acquisition would enable the Company to significantly increase the scale of its operations and make it one of the largest water treatment companies in the PRC. The Directors are of the view that through the expansion of the Company's scale of operations and with the strong support of a SOE like CEIL, this could enhance the value of the Company and improve Shareholders' return.

The Directors have confirmed that as at the Latest Practicable Date, other than the Proposed Acquisition, the Company has not received any third party alternative offers for the Shares or for asset acquisition(s) or investment opportunities which may result in an RTO.

(k) The Proposed Acquisition is conditional upon the Proposed Whitewash Resolution

We note that the passing of the resolution for the Proposed Acquisition is conditional upon the Proposed Whitewash Resolution. In the event the Proposed Whitewash Resolution is not approved by Shareholders at the SGM, the Proposed Acquisition would not take place.

9. OPINION

In arriving at our opinion in respect of the Proposed Acquisition and the Proposed Whitewash Resolution, we have deliberated on various factors which we consider to be pertinent and have a significant bearing on our assessment of the Proposed Acquisition and the Proposed Whitewash Resolution, including, *inter alia*, the following:

(a) The rationale of the Proposed Acquisition

(b) The financial performance and condition of the HanKore Group, *inter alia*, that:

(i) prior to the JTEE Acquisition in FY2013, the HanKore Group's sole source of revenue was from the receipt of fees from BOT/TOT wastewater treatment services for FY2011 and FY2012. During FY2013, the HanKore Group derived approximately 92.4% of its revenue from the receipt of fees from BOT/TOT wastewater treatment services and 7.6% of its revenue from EPC turnkey services. For the 6M2014, the HanKore Group derived approximately 91.1% of its revenue from the receipt of fees from BOT/TOT wastewater treatment services and 8.9% of its revenue from EPC turnkey services;

(ii) the HanKore Group has posted a net loss position during the 6M2014 due to a decline in revenue derived from construction services from service concession arrangements as well as an increase in administrative and operating expenses;

(iii) there was an increase in the HanKore Group's net cash flow from financing activities in FY2013 as a result of a series of financing activities carried out to raise funds and boost cash flows, resulting in an increase in the Company's net debt position to an amount of approximately RMB686.6 million as at 31 December 2013, representing 0.48 times of total assets. The borrowing position of the HanKore Group further increased to approximately RM1.1 billion as at 30 June 2014; and

(iv) the operating cash flow of the HanKore Group has been negative for FY2013 and 6M2014, and the HanKore Group has relied substantially on proceeds from the issuance of debt and equity securities to generated positive cash flows from financing activities to offset the decline in earnings performance.

(c) The financial assessment of the Effective Issue Price:

(i) The Effective Issue Price of S$0.625 per Share or approximately RMB3.00 per Share (based on an agreed foreign exchange rate of RMB1 : S$0.2086) represents a premium of approximately 6.0% to the audited NAV per Share as at 30 June 2014 and a premium of approximately 37.0% to the audited NTA per Share as at 30 June 2014;

(ii) Based on the Implied Valuation, the P/NAV ratio is therefore 1.14 times on a fully diluted basis as at 30 June 2014;

(iii) Based on the Implied Valuation, the P/NTA ratio is therefore 1.37 times on a fully diluted basis as at 30 June 2014;

(iv) The Effective Issue Price of S$0.625 per Share is **within the range** of the daily closing price of the Shares over the 1-year period up to 27 December 2013, being the last trading day prior to the Framework Agreement Announcement Date, which is between a low of S$0.380 per Share and a high of S$0.850 per Share;

(v) The Effective Issue Price represents a **discount of approximately 21.9%, 16.7%, 11.1% and 4.0%** to the last transacted price, 1-month, 3-month and 6-month VWAP of the Share respectively, and a **premium of approximately 0.6%** over the 1-year VWAP of the Shares respectively;

(vi) The Effective Issue Price represents a **discount of 45.0%** to the VWAP of the Shares for the period between the market day immediately after the Framework Agreement Announcement Date and up to the Latest Practicable Date;

(vii) The volume of Shares traded on the last reading day prior to the Framework Agreement announcement date was 5,051,200 Shares which is **the lowest for the 1-year period** prior to the Framework Agreement announcement date. This represents **approximately 1.96% of the Company's free float**;

(viii) The Effective Issue Price of S$0.625 per Share is **within the range** of the daily closing price of the Shares over the 1-year period up to 30 May 2014, being the last trading day prior to the Proposed Acquisition announcement date, which is between a low of S$0.380 per Share and a high of S$1.490 per Share;

(ix) The Effective Issue Price represents a **discount of approximately 47.5%, 39.0%, 48.3%, 45.4% and 32.9%** to the last transacted price, 1-month, 3-month, 6-month and 1-year VWAP of the Shares respectively;

(x) The Effective Issue Price represents a **discount of 32.7%** to the VWAP of the Shares for the period between the market day immediately after the Proposed Acquisition Announcement Date and up to the Latest Practicable Date;

(xi) As at the Latest Practicable Date, the Effective Issue Price represents a **discount of 28.6%** to the last transacted price of the Shares of S$0.875;

(xii) As at the last trading day prior to the Proposed Acquisition Announcement Date, the Shares traded at an average daily trading volume of 24,458,000 Shares representing **approximately 9.49% of the Company's free float,** this was the highest in a year. There appears to be an increasing trend of market activity / active investor interest involving the Shares as indicated by the frequency of transactions;

(xiii) The discount of 21.9% as implied by the Effective Issue Price over the last traded price prior to the Framework Agreement Announcement date is within the range and lower than the mean and median premia and discounts of the Comparable Transactions. Historical P/NTA ratio before the announcement of the Framework Agreement as implied by the Effective Issue Price of 1.31 times within the range and lower than the mean and the median P/NTA ratios of the Comparable Transactions; and

(xiv) The discount of 47.5% as implied by the Effective Issue Price over the last traded price prior to the Proposed Acquisition Announcement date is lower than the range and lower than the mean and median premia and discounts of the Comparable Transactions. Historical P/NTA ratio before the announcement of the Proposed Acquisition as implied by the Effective Issue Price of 0.98 times is within the range and lower than the mean and the median P/NTA ratios of the Comparable Transactions.

(d) The financial assessment of the Consideration:

(i) Turnover of the Target Group is derived primarily from the revenue received from construction services, operation services and finance income. The Target Group recorded revenue amounting to approximately HK$854.5 million, HK$1,391.0 million, HK$1,290.7 million and HK$505.8 million for FY2011, FY2012, FY2013 and 6M2014 respectively. The Target Group also recorded net profit after income tax of HK$203.0 million, HK$246.7 million, HK$266.5 million and HK$166.0 million in FY2011, FY2012, FY2013 and 6M2014 respectively;

(ii) With reference to the Independent Valuation Reports, we note that the value of the Target Group as implied by the Purchase Consideration is at a premium of approximately 7.4% and 3.6%, or approximately S$83.4 million and S$41.7 million over the stand-alone equity valuations performed by American Appraisal and Grant Sherman respectively;

(iii) The market capitalization value of the Company of approximately S$446.7 million is at a premium of approximately 40.0%, or approximately S$127.6 million over the equity valuation of the Company of approximately S$319.1 million based on the Effective Issue Price. Accordingly, we note that the Current Market Premium is higher than the Independent Valuation Premiums;

(iv) The EV/EBITDA ratio implied by the Consideration of 15.1 times is within the range of EV/EBITDA ratios of the SOE Comparable Companies and is lower than both the mean and median EV/EBITDA ratios of 18.3 times and 17.7 times respectively;

(v) The EV/IC ratio implied by the Consideration of 2.2 times is within the range of EV/IC ratios of the SOE Comparable Companies and is lower than the mean EV/IC ratio of 2.5 times and equal to the median EV/IC ratio of 2.2 times;

(vi) The P/NAV ratio implied by the Consideration of 2.5 times is within the range of the P/NAV ratios of the SOE Comparable Companies and is higher than both the mean and median P/NAV ratios of 2.1 times and 2.2 times respectively;

(vii) The P/E ratio implied by the Consideration of 24.2 times is within the range of the P/E ratios of the SOE Comparable Companies and is lower than both the mean and median P/E ratios of 26.5 times and 25.7 times respectively;

(viii) The EV/EBITDA ratio implied by the Consideration of 15.1 times is within the range of EV/EBITDA ratios of the non-SOE Comparable Companies and is higher than both the mean and the median EV/EBITDA ratios of 12.3 times and 10.0 times respectively;

(ix) The EV/IC ratio implied by the Consideration of 2.2 times is within the range of EV/IC ratios of the non-SOE Comparable Companies and is higher than both the mean and median EV/IC ratios of 1.8 times and 1.9 times respectively;

(x) The P/NAV ratio implied by the Consideration of 2.5 times is within the range of the P/NAV ratios of the non-SOE Comparable Companies and is higher than both the mean and median P/NAV ratios of 1.7 times and 1.9 times respectively; and

(xi) The P/E ratio implied by the Consideration of 24.2 times is within the range of the P/E ratios of the non-SOE Comparable Companies and is higher than both the mean and median P/E ratios of 18.6 times and 18.9 times respectively.

(e) The financial effects of the Proposed Acquisition on the HanKore Group:

(i) Assuming that the Proposed Transactions were completed on 30 December 2013, the earnings per Share for the FY2013 would improve from HK$0.08 to HK$0.10 due to the improved financial performance of the Enlarged Group;

(ii) Assuming that the Proposed Transactions were completed on 30 December 2013, the HanKore Group's NTA per Share would have decreased from HK$3.23 to HK$1.89 due mainly to the dilutive effect on the NTA per Share as a result of the issuance of the Consideration Shares; and

(iii) Assuming that the Proposed Transactions were completed on 30 December 2013, the HanKore Group's gearing would have improved from 0.49 times to 0.23 times mainly attributable to the lower amount of debt on the balance sheet of the Target Company as well as the increase in shareholders' equity.

(f) Acquisition of additional water investments by the Target Company:

The Qingdao Project Acquisition would increase the annual waste-water treatment capacity of the Qingdao Project by approximately 29.2 million m^3 or approximately 4.3%. Notwithstanding the increase in the waste-water treatment capacity of the assets held by the Target Company, we note that the Consideration payable by the Company for the Purchase of the Sale Shares remains unchanged.

(g) Other relevant considerations in relation to the Proposed Acquisition:

(i) The dilution impact of the Proposed Acquisition whereby upon the completion of the Proposed Acquisition, the Vendor and/or their Concert Parties will collectively hold 78.00% of the Enlarged Issued Shares, the Substantial Shareholders will have their direct shareholding interest decreased from 38.02% to 7.80%, and the other existing Shareholders would have their aggregate shareholding interests diluted from 61.98% to 12.72%;

(ii) Scenario analysis of dilution impact based on comparative financial ratios:

a. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the NAV, which is a measure of the respective book value of the assets held by the Target Company and the Company, the Existing Shareholders would receive a shareholding percentage of 35.5% which would have been more favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

b. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the respective net profitability of the Target Company and the Company for FY2013, the Existing Shareholders would receive a shareholding percentage of 11.5% which would have been less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

c. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the respective net profitability of the Target Company and the Company for 6M2014, the shareholding percentage which the Existing Shareholders would receive would not be meaningful as the HanKore Group achieved a net loss earnings position for 6M2014, hence this would be less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares;

d. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the EBITDA for FY2013, which is a measure of the respective operating cash flows of the Target Company and the Company, the Existing Shareholders would receive a shareholding percentage of 22.7% which would have been more favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares; and

e. In a scenario whereby the acquisition of the Target Company is based solely on a comparison of the EBITDA for 6M2014, the shareholding percentage which the Existing Shareholders would receive would not be meaningful as the HanKore Group achieved a negative EBITDA for 6M2014, hence this would be less favorable as compared to their envisioned shareholding percentage as a result of the issuance of the Consideration Shares.

(iii) Synergies derived from the combination of businesses in the Enlarged Group:

a. Following the completion of the Proposed Acquisition, it is expected that the Company will derive a significant proportion of its revenue from BOT/TOT wastewater treatment services. In addition, the Company will become a major player in the China water sector, with a substantial increase in its daily production capacity from approximately 1.6 million tons per day to 3.6 million tons per day after completion of the Proposed Acquisition. Accordingly, the Enlarged Group will have a strong reliance on a high quality, recurring source of revenue, which we understand is also highly profitable and is able to command a higher gross profit margin;

b. The Company is set to benefit from rising water tariffs and more stringent discharge standards, especially so since the Enlarged Group would be heavily reliant on recurring water / wastewater treatment tariffs following the completion of the Proposed Acquisition. Accordingly the Company will be well-positioned to capitalize on such positive industry trends to deliver greater returns for its Shareholders; and

c. The Company will be merged under CEIL, which is a sizeable SOE, thereby enhancing the Company's bargaining power in the negotiation of water projects as well as granting access to the cheaper sources of funding currently enjoyed by CEIL.

(iv) Following the completion of the Proposed Acquisition, the Company would be amongst the first quartile of companies listed on the SGX-ST Mainboard and ranked by market capitalization. Accordingly, the Company would have a ranking of 79 and 66 based on the Implied Valuation and the share price as at LPD respectively with an enlarged market capitalization of approximately S$1.55 billion and S$2.18 billion respectively;

(v) Undertaking letters by each of Giant Delight and Ancient Jade which demonstrates their commitment to the Company;

(vi) Moratoriums by the Vendor, CEIL and CEEPH which demonstrates their commitment to the Company;

(vii) Dividend track record of the Enlarged Group:

a. The Company has not distributed any dividends in FY2012, FY2013 and FY2014 respectively. The Target Company has not distributed any dividends in FY2011, FY2012 and FY2013 respectively. Both the Company and the Target Company currently do not have a formal dividend policy;

b. There can be no assurance that dividends will be paid in the future or on the amount or timing of any dividends that may be paid in the future. The declaration and payment of any future dividends will depend upon factors such as operating results, financial position, cash requirements, expansion plans as well as any other factors deemed relevant by the new Board; and

c. The Enlarged Group may, by ordinary resolution of the Shareholders at a general meeting, declare dividends but the amount of such dividends shall not exceed the amount recommended by the new Board. The new Board may also declare interim dividends without seeking Shareholders' approval.

(viii) The Directors have confirmed that as at the Latest Practicable Date, other than the Proposed Acquisition, the Company has not received any third party alternative offers for the Shares or for asset acquisition(s) or investment opportunities which may result in an RTO; and

(ix) The passing of the resolution for the Proposed Acquisition is conditional upon the Proposed Whitewash Resolution.

Independent Shareholders should also note that our opinion is based upon market, economic, industry, monetary and other conditions, in effect on, and the information provided to us as of the Latest Practicable Date. Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein.

Having regard to the considerations set out in this letter and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed Acquisition and the Proposed Whitewash Resolution is fair and reasonable, and not prejudicial to the interests of the Independent Shareholders.

Accordingly, we would advise the Independent Directors for the purposes of the Proposed Whitewash Resolution to recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.

The Independent Directors should also note that transactions in the Shares are subject to possible market fluctuations and accordingly, our opinion on the Proposed Whitewash Resolution and the Proposed Acquisition does not and cannot take into account the future transactions or price levels that may be established for the Shares since these are governed by factors beyond the ambit of our review.

This letter has been prepared for the benefit of the Independent Directors, in connection with and for the purpose of their consideration of the Proposed Acquisition and the Proposed Whitewash Resolution only. The recommendation made by the Independent Directors to the Independent Shareholders in relation to the Proposed Acquisition and the Proposed Whitewash Resolution shall remain the sole responsibility of the Independent Directors.

Whilst a copy of this letter may be reproduced in the Circular and for any matter in relation to the Proposed Acquisition and the Proposed Whitewash Resolution, neither the Company nor the Directors may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of PPCF in each specific case except for the purposes of the SGM in respect of the Proposed Acquisition and the Proposed Whitewash Resolution. This opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours truly,

For and on behalf of
PrimePartners Corporate Finance Pte. Ltd.

MARK LIEW
MANAGING DIRECTOR, CORPORATE FINANCE

ANDREW LEO
DIRECTOR, CORPORATE FINANCE

Shareholders should consider carefully the following risk factors and all other information contained in this Appendix E before voting on the Proposed Acquisition. Some of the following considerations relate principally to the industry in which the Enlarged Group and Target Group operate and the Enlarged Group's and Target Group's business and operations in general. Other considerations relate principally to general social, economic, political and regulatory conditions, the securities market and ownership of the Shares, including possible future dilution in the value of the Shares.

Shareholders should also note that certain of the statements set forth below constitute "forward-looking statements" that involve risks and uncertainties. If any of the following risk factors and uncertainties develops into actual events, the Enlarged Group's and Target Group's business, financial condition, results of operations or cash flows may be adversely affected. In such circumstances, the trading price of the Shares could decline and Shareholders may lose all or part of their investment. To the best of the HanKore Group's and Target Group's directors' belief and knowledge, all the risk factors that are material to Shareholders in making an informed judgment have been set out below.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS AND OPERATIONS

The Target Group faces increasing competition in its key market

The rapid development and growth of the wastewater treatment market in the PRC and the deepening of the PRC's government reforms of the wastewater industry has led to the Target Group facing increasing competition among the market participants in the wastewater treatment market, in particular, the medium and small scale wastewater treatment projects which the Target Group mainly targets. The Target Group competes with both domestic and international companies with respect to factors such as precincts, facilities, services and pricing. Intensified competition may result in increased costs for land, materials, overheads and delays in the approval process for new projects by the government, all of which may adversely affect the Target Group's business, operations, results of operations and financial position.

Some of the Target Group's competitors are very active in the PRC market, have the ability to capture market opportunities, have relatively good adaptability to the competition environment and show relatively strong market competitiveness in the medium and small wastewater treatment projects. If the Target Group's existing or potential competitors lower costs or engage in aggressive pricing in order to increase market share, the Target Group's revenue and profitability may decline if the Target Group is not able to match their competitors' lower costs or aggressive pricing in a timely manner.

As a result, there can be no assurance that the Target Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition may not have an adverse effect on the Target Group's business, operations, results of operations and financial position. Furthermore, such competition may limit the Target Group's opportunities to invest in projects that could potentially add value.

Certain construction and management risks may arise within the Target Group's projects

The Target Group's BOT, BOO and BT businesses are project-based, and proper project management including, but not limited to, management of time, procurement of materials and allocation of resources are important factors for the successful completion of projects. Mismanagement may result in delays in the completion of the projects and hence adversely affect the Target Group's profitability.

BOT, BOO and BT projects are subject to inherent risks, for example, cost overruns and construction delays. When construction costs exceed original estimates, either due to inflation or design changes, draw-downs from loans may not be sufficient to match payments due from the Target Group, and additional financing will have to be arranged. A delay in completion of a project will result in a corresponding increase of capitalised costs of the projects as interest on the loan continues to accrue and, at the same time, the receipt of revenue is delayed.

In addition, the Target Group typically has arrangements with sub-contractors that are essential to its operations. For the Target Group's BOT, BOO and BT projects, should the Target Group's sub-contractors fail to perform its obligations or if the credit-worthiness of any of these counterparties deteriorates, the Target Group's business, operations, results of operations and financial position may be adversely affected.

The cost of raw materials is a significant component of the Target Group's expenditure. The Target Group may not be able to fully pass on the cost of such materials to its customers and any increase in the cost of such raw materials could have an adverse effect on the Target Group's business, operations, results of operations and financial position.

The construction and development of projects also entail significant risks, including shortages of materials or skilled labour, unforeseen engineering, environmental or geological problems, work stoppages, strikes or other labour problems, litigation, weather interference, floods and unforeseen cost increases, any of which could give rise to delayed completions or cost overruns. Difficulties in obtaining any requisite licences, permits, allocations or authorisations from government or regulatory authorities could also increase the cost, or delay the construction or opening of, new projects. All of the above factors may adversely affect the Target Group's business, operations, results of operations and financial position.

The Target Group's wastewater treatment projects are capital intensive with long payback periods and the Target Group may require additional funding for these projects

The Target Group's wastewater treatment projects typically require significant initial cash outlays and have long payback periods. The Target Group's BOT, BOO and BT projects require the Target Group to make substantial financial capital outlay during the construction phase of the projects, which typically last approximately six to 18 months according to the scale of the project. The Target Group is responsible for the costs of construction of the wastewater treatment facilities.

The concession periods for the Target Group's BOT, BOO and TOT projects generally range from 20 to 30 years, during which the Target Group will bear the operation, maintenance and repair costs of the wastewater treatment facilities. The Target Group only receives regular, typically monthly, tariff payments from its customers during the concession term after completion of the construction and commencement of commercial operations of the relevant facilities and, where required, upon receipt of the rights to operate such facilities during the concession period.

Accordingly, there is no assurance that the Target Group will be able to secure adequate funding or refinancing (if required) for these projects on terms that are acceptable to the Target Group or at all or that these projects will achieve their initial expected returns. Historically, the Target Group has financed its capital expenditure from various sources, including, but not limited to cash flows from operations and existing credit facilities. The Target Group's ability to arrange for external financing and the costs of such financing are dependent on various factors, including, but not limited to general economic conditions, interest rates, credit availability from banks or other lenders. The Target Group may need to finance these projects from its internal resources, which may strain its resources for developing or acquiring other projects and other corporate purposes in the event it fails to obtain short-term or long-term project financing or refinancing for such projects in the amount budgeted or at all. This may also have an adverse effect on the Target Group's business, operations, results of operations and financial position.

Failure to achieve the projected utilisation of the wastewater treatment plants that the Target Group operates may adversely affect its earnings

The Target Group's BOT, BOO and TOT projects are or will be built to a specific design capacity in accordance with the terms of the relevant concession agreement. The ability of the Target Group's BOT, BOO and TOT projects to operate at the forecasted utilisation capacity is dependent on the population growth and the level of industrialisation in the area serviced by the relevant facilities. There is no assurance that the facilities that the Target Group operates will be able to achieve the forecasted utilisation of their design capacity. If the facilities the Target Group operates are not utilised to their designed capacities fully, the Target Group may not generate the revenue and profit it had expected from the relevant projects and its business, operations, results of operations and financial position may be adversely affected.

The Target Group's growth will depend on its continuing ability to secure and develop new projects

As a large portion of the Target Group's business is project-based, the revenue contributions of the Target Group's major customers, being those which account for 5% or more of the Target Group's total revenue, tend to be on a one-off basis and subject to the duration of the applicable concession agreement (in respect of BOT, BOO and TOT projects) or the terms of transfer (in respect of BT projects). As such, the Target Group's profitability is dependent on its ability to secure new profitable projects. The Target Group may not be engaged in similar projects in terms of size and scope with the same customer in subsequent years. The ability of the Target Group to secure new projects may be based on a number of factors, including having the relevant technical expertise, an established track record in the specific fields, and/or the possession of various licenses and permits. Although the Target Group has a track record of securing wastewater treatment projects, there is no assurance that the Target Group will be able to continue to do so in the future. In the event the Target Group is unable to secure new projects, and/or continue to secure projects of the size and scale it currently manages, its business, operations, results of operations and financial position may be adversely affected.

One of the Target Group's major customers is Jinan Municipal Finance Bureau which is the sole customer of a number of wastewater treatment projects, namely Jinan Licheng Wastewater Treatment Project (Plant 3), the Jinan Licheng Reusable Water Project, the Jinan Wastewater Treatment Project (Plant 1), Jinan Wastewater Treatment Project (Plant 2) and the Jinan Xike Wastewater Treatment Project (Plant 4). Jinan Municipal Finance Bureau's contribution accounted for 37.79%, 37.17%, and 22.31% of the Target Group's total revenue in FY2011, FY2012 and FY2013 respectively. The concession agreements for the Jinan Licheng Reusable Water Project and the Jinan Xike Wastewater Treatment Project (Plant 4) will expire in 2035 and the concession agreements for the Jinan Licheng Wastewater Treatment Project (Plant 3), the Jinan Wastewater Treatment Project (Plant 1) and the Jinan Wastewater Treatment Project (Plant 2) will expire in 2036. Provided that the existing business arrangements with Jinan Municipal Finance Bureau continue pursuant to the terms of the respective concession agreements, Jinan Municipal Finance Bureau's contribution to the Target Group's revenue should continue until the expiry of such concession agreements.

Any disruption to or sudden termination of the Target Group's existing business arrangements with its major customers will have an impact on the Target Group's financial results, unless the Target Group's existing projects which are in construction commence commercial operations as scheduled and it is able to continue to secure new projects of a similar size and scale.

Adjustments to tariff payments to the Target Group are subject to regulatory approval and any failure to obtain approval for tariff increases or any reduction in tariffs by the PRC government may significantly impact the Target Group's profits

The Target Group's main source of revenue from its BOT, BOO and TOT projects consist primarily of tariff payments under the relevant concession agreements. The tariffs for such projects are generally linked to certain local benchmark prices of key cost indices such as the consumer price index, labour costs, electricity charges and, in the case of the Target Group's BOT projects, the amount of the Target Group's initial capital investment.

Adjustments to tariffs are generally subject to regulation by various government or regulatory authorities in the PRC and applications for adjustments may usually be made once every two to three years, depending on the terms of the relevant concession agreement. In the event there is an increase in key costs including raw material prices, labour costs and/or electricity charges, the Target Group will make applications to the relevant government or regulatory authorities in the PRC for upward adjustments to the tariffs.

There is no assurance that the relevant government or regulatory authorities will approve the Target Group's applications for increasing the tariffs to reflect any increase in its key costs. There is also no assurance that the relevant government or regulatory authorities will not reduce the tariffs correspondingly should the relevant benchmark prices or key cost indices decrease.

Furthermore, even if the PRC government agrees to an adjustment to the tariff, there is no assurance that any increase in tariff will fully reflect the increase in the Target Group's actual costs. If the Target Group incurs significantly higher operating costs without a corresponding increase in the tariffs or in the event of a reduction in tariffs, the Target Group may not be able to sustain its profitability or it may even incur a loss, and its business, operations, results of operations and financial position may be adversely affected.

The Target Group Companies may not have obtained all certificates and permits or made the necessary filings for certain of its projects and/or complied with all the terms of certain of its concession agreements

The Target Group is required to have or undertake certain certificates and permits from, and comply with certain procedures set by, various PRC government or regulatory authorities in connection with the construction and operation of its projects.

Land use rights

As at the Latest Practicable Date, certain of the Target Group Companies, namely, Everbright Water (Ji'Nan) Ltd (in respect of Plant 4 of the Jinan Xike Wastewater Treatment Project), Everbright Water (Zibo Zhoucun) Water Purification Ltd (in respect of the Zibo Zhou Cun Wastewater Treatment Project), Everbright Water (Boxing) Ltd (in respect of Phase 1 of the Bin Zhou Boxing Wastewater Treatment Project) and Qingdao EB-VW Waste Water Treatment Ltd (in respect of the Mai Dao Plant of the Qingdao Wastewater Treatment Project) have not obtained the land use right certificates for these projects, which are already in commercial operations.

The failure of the above projects not having the relevant land use right certificates could result in the relevant Target Group Company being subject to certain consequences: (i) having no title certificate to evidence that it has the right to use the land, and, accordingly, it would be unable to apply for and obtain the construction work permit and construction project planning certificate necessary for construction of the project, (ii) being deemed to be occupying the land illegally and may be ordered to return such land, and the constructed buildings and other structures on the land may be demolished or confiscated and (iii) being fined up to RMB30 per square metre of the land illegally used (amounting to a maximum potential fine of RMB7,170,000 for all such projects, which represents approximately 0.17% of total assets of the Target Group as at 30 June 2014 ("**Target Group 30 June 2014 Total Assets**") and approximately 0.09% of the unaudited pro forma total assets of the Enlarged Group as at 30 June 2014 ("**Enlarged Group 30 June 2014 Total Assets**")(11)).

Construction permissions

As at the Latest Practicable Date:

(i) Everbright Water (Ji'Nan) Ltd (in respect of Plant 4 of the Jinan Xike Wastewater Treatment Project), Everbright Water (Jiangyin) Ltd (in respect of the Innovation Project of the Shi Zhuang Wastewater Treatment Project), Everbright Water (Zibo Zhoucun) Water Purification Ltd (in respect of the Zibo Zhou Cun Wastewater Treatment Project)

(11) Based on a foreign exchange rate of HKD1 : RMB0.7954.

and Everbright Water (Boxing) Ltd (in respect of the expansion project of Phase 2 of the Bin Zhou Wastewater Treatment Project) have not obtained the construction project planning certificates and the construction work permits required prior to commencement of construction of these projects, all of which are already in commercial operations;

(ii) Everbright Water (Zhangqiu) Ltd (in respect of the Zhangqiu Wastewater Treatment Project), Everbright Water (Ji'nan Licheng) Ltd (in respect of the expansion project of Plant 3 (Phase 2) of the Jinan Licheng Wastewater Treatment Project), Everbright Water (Jiangyin) Ltd (in respect of the Innovation Project (Phase 1) of the Chengxi Wastewater Treatment Project) and Zibo Everbright Water Energy Development Ltd (in respect of Phase II of the Zibo Heat Pump Project) have not obtained the construction work permits required prior to commencement of construction of these projects, all of which are already in commercial operations;

(iii) Everbright Water (Jiangyin) Ltd (in respect of certain projects of the Cheng Xi Waste Water Treatment Project, the Bin Jiang Waste Water Treatment Project and the Shi Zhuang Wastewater Treatment Project), Everbright Water (Zibo Zhoucun) Water Purification Ltd (in respect of the Zibo Zhou Cun Wastewater Treatment Project), Zibo Everbright Water Energy Development Ltd (in respect of Phases I and II of the Zibo Heat Pump Project) and Everbright Water (Boxing) Ltd (in respect of the expansion project of Phase 2 of the Bin Zhou Wastewater Treatment Project) have not completed the construction completion acceptance inspections for these projects, all of which are already in commercial operations, except for the Zibo Reusable Water Project; and

(iv) Everbright Water (Ji'nan Licheng) Ltd (in respect of Plant 3 (Phase 1) of the Jinan Licheng Wastewater Treatment Project, and the expansion project in relation to Plant 3 (Phase 2) of the same project) and Everbright Water (Ji'Nan) Ltd (in respect of Plant 4 of the Jinan Xike Wastewater Treatment Project) have not completed the construction completion acceptance filings for these projects.

The failure of the above projects not having the relevant construction related certificates or permits or not having carried out the relevant construction completion acceptance inspections or filings, as the case may be, could result in the relevant Target Group Companies being subject to certain consequences:

(i) in respect of failure to obtain the construction work permit, the relevant Target Group Company may be required to make rectification within a time limit, and may be subject to a monetary penalty of 1% to 2% of the construction contract price;

(ii) in respect of failure to obtain the construction project planning certificate, (a) if rectification measures can be adopted, the relevant Target Group Company may be ordered to make rectification within a time limit and may be subject to a fine of 5% to 10% of the construction contract price and (b) if rectification measures cannot be adopted, the Target Group Company may be required to demolish the project within a time limit, failing which the project itself or the unlawful income may be confiscated, and the Target Group Company may be subject to a fine of up to 10% of the cost of the construction project;

(iii) in respect of failure to complete the construction completion acceptance inspection, the relevant Target Group Company may be ordered to make rectification within a time limit and assume responsibility for compensating any third party for damage caused. In addition, the Target Group Company may be subject to a monetary penalty of 2% to 4% of the construction contract price; and

(iv) in respect of failure to complete the construction completion acceptance filing, the relevant Target Group Company will not be able to obtain a property ownership certificate in respect of the buildings located on the relevant land and may be subject to a monetary penalty of RMB 200,000 to RMB 500,000.

The above could amount to a maximum potential fine of RMB90,919,322 for all such projects, which represents approximately 2.22% of the Target Group 30 June 2014 Total Assets and approximately 1.17% of the Enlarged Group 30 June 2014 Total Assets[12].

Environmental permits

As at the Latest Practicable Date, Everbright Water (Jiangyin) Ltd (in respect of certain projects of the Cheng Xi Waste Water Treatment Project) and Zibo Everbright Water Energy Development Ltd (in respect of Phase II of the Zibo Heat Pump Project) have not completed the environmental completion acceptance in relation to these projects. The failure of these projects not having completed the environmental completion acceptance could result in the relevant Target Group Companies being subject to certain consequences: (i) being required to cease the operations of the relevant project and/or (ii) may subject the Target Group Company to a penalty of RMB50,000 to RMB500,000 (amounting to a maximum potential fine of RMB1,000,000 for all such projects, which represents approximately 0.02% of the Target Group 30 June 2014 Total Assets and approximately 0.01% of the Enlarged Group 30 June 2014 Total Assets[13]).

Concession agreements

Everbright Water (Jiangyin) Ltd, may be in breach of its concession agreement by granting a mortgage over the land use right certificate and property ownership certificate to a financial institution to secure loans and pledging its fee collection right under such agreement in favour of such financial institution, without the written approval of the counterparty to the concession agreement. The consequence of such a breach is that the counterparty to the concession agreement may claim monetary damages against the Target Group Company if the counterparty to the concession agreement suffers any loss as a result of the breach.

If any of the above consequences materialise or occur, the business, operations, results of operations and financial position of the Target Group may be adversely affected.

Please refer to Appendix F titled "Government Regulations" to this Circular for further details on the status of compliance by the Target Group Companies with relevant PRC laws and regulations.

[12] Based on a foreign exchange rate of HKD1 : RMB0.7954.

[13] Based on a foreign exchange rate of HKD1 : RMB0.7954.

The Target Group is dependent on its experienced and established management team

The success of CEWIL to date has been largely attributable to the contributions of CEWIL's core management team, including Mr. Chen Xiaoping and Mr. Wang Tianyi, which has been instrumental in formulating and developing the corporate business strategies of CEWIL and spearheading the growth of its environmental water business.

The continued success of CEWIL is dependent on its ability to retain the services of its management team. The loss of the services of any one or more members of the core management team, without timely or suitable replacements, or at all, may lead to the loss or deterioration of management capability and important business relations which may have an adverse effect on the Target Group's business, operations, results of operations and financial position.

RISKS RELATING TO THE HANKORE GROUP'S BUSINESS AND OPERATIONS

If the HanKore Group is unable to comply with the covenants or restrictions contained in its bank loans, amounts outstanding under these loans may be declared due and payable, which could materially adversely affect its business, financial position and results of operations

The HanKore Group's various financing agreements contain covenants that, among other things, restrict the Company and/or its subsidiaries' ability to dispose of material assets, create liens on assets, repay shareholder loans, incur guarantee obligations, enter into contracts with significant impact on the HanKore Group's business and financial position, make acquisitions, engage in mergers or consolidations, declare or pay dividends and engage in certain transactions with affiliates. The Company's ability to comply with the covenants and restrictions contained in the HanKore Group's bank loans may be adversely affected by economic, financial, industry or other conditions, some of which may be beyond its control. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to the Company and/or its subsidiaries, accelerate the debt obligation and declare all amounts outstanding under such loans due and payable or terminate the agreements, as the case may be. Furthermore, certain debt agreements, including the Multicurrency Medium Term Note Programme, may contain cross-acceleration or cross-default provisions. As a result, default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the notes issued under the Multicurrency Medium Term Note Programme, or result in a default under other debt agreements. If any of these events should occur, there is no assurance that the HanKore Group's assets and cash flow would be sufficient to repay in full all indebtedness, or that any alternative financing may be found. Even if alternative financing is obtained, there is no assurance that such alternative financing would be on terms that are favourable or acceptable to the Company and/or its subsidiaries, as the case may be.

Furthermore, there is no assurance that these covenants will not adversely affect the HanKore Group's ability to finance its future operations or capital needs, to pursue available business opportunities and/or to react to changes in its business and the industry in which it operates.

The HanKore Group may be unable to adequately safeguard its intellectual property or face claims that may be costly to resolve or limit its ability to use such intellectual property in the future

Following the acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd., the HanKore Group possesses intellectual property comprising patents in respect of its EPC business. While the HanKore Group takes adequate steps to safeguard its intellectual property, there is no assurance that the measures it has taken to protect its intellectual property will be sufficient to prevent any theft or misuse of its intellectual property, or that its competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to the Group's.

Enforcement of the HanKore Group's intellectual property rights especially in the PRC could be costly and the Group may not be able to immediately detect the unauthorised use of its intellectual property and take the necessary steps to enforce its intellectual property rights. Furthermore, there is no assurance that third parties will not assert infringement claims against the HanKore Group in respect of its intellectual property or that such claims will not be successful. It may be difficult for the HanKore Group to establish or protect its intellectual property against such third parties and the Group could incur substantial costs. There may also be the diversion of management resources in defending any claims relating to its intellectual property rights. If any party succeeds in asserting a claim against the HanKore Group relating to the disputed intellectual property, the Group may need to obtain licences in order to continue to use the same or be legally required to expend significant resources to redevelop the Group's technical know-how so that it does not infringe on third-parties' intellectual property rights. There is no assurance that the HanKore Group will be able to obtain these licences on commercially reasonable terms, if at all. Any failure to obtain the necessary licences or other rights could cause the HanKore Group's business, financial conditions or results of operations to suffer. However, the Group's efforts in this regard may be inadequate to deter the misappropriation of its intellectual property and the Group may be unable to detect unauthorised use and take appropriate steps to enforce its rights. Policing unauthorised use of the Group's proprietary technical know-how is difficult and there can be no assurance that the steps taken by it will prevent misappropriation of its proprietary technical know-how.

Where litigation is necessary to safeguard HanKore Group's intellectual property, or to determine the validity and scope of the proprietary rights of others, this could result in the Group incurring substantial costs and the diversion of its resources. Adverse rulings in any litigation or proceedings could also result in the loss of the Group's proprietary rights and subject it to substantial liabilities, which could have a material adverse effect on its business, financial position, operating results or future prospects.

The HanKore Group's business, financial condition and results of operations may be adversely affected if it fails to obtain all certificates and permits or make the necessary filings for certain of its projects and/or comply with the terms of certain of its concession agreements

The HanKore Group is required to have certain licences, permits and approvals from, and comply with certain procedures set by, various PRC government or regulatory authorities in order for it to conduct its operations in the PRC.

Land use rights

As at the Latest Practicable Date, certain of the HanKore Group subsidiaries, namely, Suzhou Jin Di Water Co., Ltd. (in respect of Phase 2 of the Chengnan Sewage Treatment BOT Project), Yangzhou HanKore Water Treatment and Development Co., Ltd. (in respect of the upgrading and improvement of Phase 1 of the Sewage Treatment Plant in the Fourth Village of Yanjiang, Jiangdu) and Sanmenxia HanKore Water Co., Ltd. (in respect of the BOT Project relating to the Sewage Treatment Plant in the Industry Centralised Area of Sanmenxia city) have not obtained the land use right certificates for these projects, which are already in construction. Nanjing Jin Huan Water Development Co., Ltd. (in respect of the Liuhe Sewage Treatment Plant Project) has not obtained the land use right certificates for this project, which is already in commercial operations.

The failure of the above projects not having the relevant land use right certificates could result in the relevant HanKore Group Company being subject to certain consequences: (i) having no title certificate to evidence that it has the right to use the land, and, accordingly, it would be unable to apply for and obtain the construction work permit and construction project planning certificate necessary for construction of the project, (ii) being deemed to be occupying the land illegally and may be ordered to return such land, and the constructed buildings and other structures on the land may be demolished or confiscated and (iii) being fined up to RMB30 per square metre of the land illegally used.

Construction permissions

As at the Latest Practicable Date:

(i) Yangzhou HanKore Water Treatment Development Co., Ltd. (in respect of the upgrading and improvement of Phase 1 of the Sewage Treatment Plant in the Fourth Village of Yanjiang, Jiangdu) and Nanjing Golden Idea Water Development Co., Ltd. (in respect of the upgrading and improvement of Phase 1 of the Zhujiang Sewage Treatment Plant Project and Phase 2 of the Zhujiang Sewage Treatment Plant Project) have not obtained the construction project planning certificates and the construction work permits required prior to commencement of construction of these projects, all of which are not in commercial operations;

(ii) Nanjing Jin Huan Water Development Co., Ltd. (in respect of Stage 1 of Phase 1 of the upgrading and improvement of Liuhe Sewage Treatment Plant Project and Stage 2 of Phase 1 of the Liuhe Sewage Treatment Plant Project) and Sanmenxia HanKore Co., Ltd. (in respect of Phase 1 of the BOT Project relating to the Sewage Treatment Plant in the Industry Centralised Area of Sanmenxia city) have not obtained the construction work permits required prior to commencement of construction of these projects, all of which are not in commercial operations;

(iii) Kunshan Gang Dong Wastewater Treatment Co., Ltd. (in respect of the upgrading and improvement of, and Phase 2 of, the Gang Dong Sewage Treatment Plant Project), Lianyungang King Fortune Water Co., Ltd. (in respect of Phase 1 of the Xugou Sewage Treatment Plant), Xianyang Bai Sheng Shui Purifying Co., Ltd. (in respect of Phase 1 of the Dongjiao Sewage Treatment BOT Project), Nanjing Golden Idea Water Development

Co., Ltd. (in respect of Phase 1 of the Zhujiang Sewage Treatment Plant Project) and Nanjing Jin Huan Water Development Co., Ltd. (in respect of Stage 1 of Phase 1 of the Liuhe Sewage Treatment Plant Project) have not completed the construction completion acceptance filings for these projects.

The failure of the above projects not having the relevant construction related certificates or permits or not having carried out the relevant construction completion acceptance inspections filings, as the case may be, could result in the relevant HanKore Group subsidiaries being subject to certain consequences:

(i) in respect of failure to obtain the construction work permit, the relevant HanKore Group Company may be required to make rectification within a time limit, and may be subject to a monetary penalty of 1% to 2% of the construction contract price;

(ii) in respect of failure to obtain the construction project planning certificate, (a) if rectification measures can be adopted, the relevant HanKore Group Company may be ordered to make rectification within a time limit and may be subject to a fine of 5% to 10% of the cost of the construction project and (b) if rectification measures cannot be adopted, the HanKore Group Company may be required to demolish the project within a time limit, failing which the project itself or the unlawful income may be confiscated, and the HanKore Group Company may be subject to a fine of up to 10% of the cost of the construction project; and

(iii) in respect of failure to complete the construction completion acceptance filing, the relevant HanKore Group Company will not be able to obtain a property ownership certificate in respect of the buildings located on the relevant land and may be subject to a monetary penalty of RMB200,000 to RMB500,000.

Environmental permits

As at the Latest Practicable Date, Yangzhou HanKore Water Development Co., Ltd. (in respect of Stage 1 of Phase 1 of the Sewage Treatment Plant in the Fourth Village of Yanjiang, Jiangdu) has not completed the environmental completion acceptance in relation to this project. The failure of this project not having completed the environmental completion acceptance could result in the relevant HanKore Group Company being subject to certain consequences: (i) being required to cease the operations of the relevant project and/or (ii) may subject the HanKore Group Company to a penalty of RMB50,000 to RMB500,000.

In addition, as at the Latest Practicable Date, Lianyungang King Fortune Water Co., Ltd. (in respect of the Xugou Sewage Treatment Plant Project) and Nanjing Jin Huan Water Development Co., Ltd. have not obtained a pollutant discharge permit. Further, the pollutant discharge permit of Yangzhou HanKore Water Development Co., Ltd. had expired on 27 March 2014 and an application has not been made for renewal of the permit. The renewal application will be made after Yangzhou HanKore Water Development Co., Ltd completes the environmental completion acceptance in relation to Stage 1 of Phase 1 of the Sewage Treatment Plant. The lack of a pollutant discharge permit could result in the HanKore Group Company being subject to certain consequences: (i) being required to cease such discharge and/or (ii) may subject the HanKore Group Company to a monetary penalty of RMB10,000 to RMB30,000.

If any of the above consequences materialise or occur, the business, operations, results of operations and financial position of the HanKore Group may be adversely affected.

The HanKore Group faces the risk of its customers making claims against it and/or prematurely terminating its services in whole or in part should it breach the terms of agreements with them or fail to implement projects which fully satisfy their requirements and expectations

As at the Latest Practicable Date, the HanKore Group had been engaged in the design, construction, operation and development of 11 large-scale municipal BOT and TOT water treatment projects located in Beijing and the provinces of Jiangsu, Shandong, Shaanxi and Henan. There is no assurance that the construction of the abovementioned projects will not be delayed or that these projects will be completed to the requirements and expectations of the HanKore Group's customers.

In the event the HanKore Group fails to complete projects on time or fully in compliance with the requirements and expectations of the Group's customers, or the Group delivers defective systems or products, the Group's customers may make claims against the Group and/or prematurely terminate its services in whole or in part.

Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by the HanKore Group's sub-contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, the HanKore Group could experience delays in the recognition of its revenue from such projects and the Group may not receive payments from the relevant customer, which could adversely affect the Group's cash flow. This in turn could have an adverse effect on the Group's business, financial condition and results of operations. In addition, the HanKore Group's reputation may be negatively affected which could negatively affect the Group's ability to obtain new projects from the PRC government.

In addition, in the event that the HanKore Group is found liable for the delays or failure to complete projects to the satisfaction of its customers, the Group may be required to compensate its customers for their losses, which could be material amounts and this could also adversely affect the Group's business, financial condition and results of operations.

The HanKore Group's profit may be adversely affected if its cost estimates are incorrect or if there are delays in the completion of the projects

The HanKore Group attempts to forecast its costs of labour and supplies when it enters into BOT contracts. However, the actual costs incurred and profits that the HanKore Group eventually realises on a contract may vary from its estimates due to factors including, but not limited to, the following:

(i) underestimation of its costs and construction time at the initial project bidding stage;

(ii) unanticipated variations in costs of labour, equipment, supplies, materials, parts, sub-contracting and overheads, which may result from factors such as unforeseeable general cost increases, inflation, shortages, increased demand, regulatory changes and unfavorable weather conditions;

(iii) unanticipated delays in the delivery of equipment, components and supplies;

(iv) failures or defaults by suppliers and defects in components and supplies; and

(v) delays and corrective measures that may be undertaken due to poor workmanship of its sub-contractors or any other failure to meet the customer's specifications.

In the event that the HanKore Group's initial cost estimates are incorrect or delays occur during the contract progress resulting in cost overruns, the Group's profitability under that contract may be adversely affected and the Group may then suffer a loss. In addition, the Company's subsidiaries may be liable for liquidated damages should there be a delay in the completion of the projects. This could increase HanKore Group's costs and have a material adverse effect on the Group's businesses, financial conditions and results of operations.

Failure to achieve the projected utilisation of the wastewater treatment plants that the HanKore Group operates may adversely affect its earnings

The HanKore Group's BOT and TOT projects are or will be built to a specific design capacity in accordance with the terms of the relevant concession agreement. The ability of the HanKore Group's BOT and TOT projects to operate at the forecasted utilisation capacity is dependent on the population growth and the level of industrialisation in the area serviced by the relevant facilities. There is no assurance that the facilities that the Group operates will be able to achieve the forecasted utilisation of their design capacity. If the facilities the Group operates are not utilised to their designed capacities fully, the Group may not generate the revenue and profit it had expected from the relevant projects and its business, financial condition and results of operations may be adversely affected.

The HanKore Group only receives payment in connection with the revenue recognised from the construction of its BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects

The HanKore Group usually does not receive payments from its customers during the construction phase of its BOT projects. Upon completion of the BOT project, the Group receives regular, usually monthly, water processing fees from the relevant customer based on the contractually agreed pricing formula and the volume of sewage treated or water supplied (or the contractually guaranteed minimum volume, if any).

The revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against other relevant payments received related to the relevant project during the operational phase. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 20 to 30 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may cause an impairment of the HanKore Group's financial assets and adversely affect its results of operations.

The HanKore Group's sewage treatment and water supply projects are capital intensive with long payback periods and the Group may require additional funding for these projects

The HanKore Group is primarily engaged in BOT and TOT sewage treatment and water supply projects which typically require significant initial cash outlays and have long payback periods. The Group's BOT projects require the Group to make substantial financial capital outlay during the construction phase of the projects, which typically last approximately six to 18 months according to the scale of the project. The HanKore Group is responsible for the costs of construction of the sewage treatment or water supply facilities. The Group's TOT projects require the Group to pay the proprietors of the sewage treatment or water supply facilities for the right to operate such facilities during the concession period (the "**TOT Operation Right**"). The concession periods for the Group's BOT and TOT projects generally range from 25 to 30 years, during which the Group will bear the operation, maintenance and repair costs of the sewage treatment or water supply facilities. The Group only receives regular, typically monthly, tariff payments from its customers during the concession term after completion of the construction and commencement of commercial operations of the relevant facilities (in the case of BOT projects), and upon obtaining the TOT Operation Right (in the case of TOT projects).

Accordingly, there is no assurance that the HanKore Group will be able to secure adequate funding or refinancing (if required) for these projects on terms that are acceptable to the Group or at all or that these projects will achieve their initial expected returns. Historically, the HanKore Group has financed its capital expenditure from various sources, including, but not limited to cash flows from operations and existing credit facilities. The HanKore Group's ability to arrange for external financing and the costs of such financing are dependent on various factors, including, but not limited to general economic conditions, interest rates, credit availability from banks or other lenders. The HanKore Group may need to finance these projects from its internal resources, which may strain its resources for developing or acquiring other projects and other corporate purposes in the event it fails to obtain short-term or long-term project financing or refinancing for such projects in the amount budgeted or at all. This may also have an adverse effect on the HanKore Group's business, financial condition and results of operations.

RISKS RELATING TO THE ENLARGED GROUP'S BUSINESS AND OPERATIONS

The Enlarged Group may not be able to realise the full synergies of the Proposed Acquisition if it is unable to successfully integrate its businesses

There is no assurance that the Enlarged Group will be able to successfully integrate the business of the Target Group. While the existing business of the HanKore Group and the business carried on by the Target Group are similar in nature, there may be unexpected integration challenges and potential instabilities which may adversely affect the business, operations, results of operations and financial position of the Enlarged Group. Accordingly, there is no assurance that the Enlarged Group will achieve the synergies, the returns and other benefits expected of the Proposed Acquisition.

RISKS RELATING TO THE TARGET GROUP'S AND ENLARGED GROUP'S INDUSTRY

The operations of the Target Group and the Enlarged Group may be adversely affected by changes in the economic, political and social conditions in the PRC

The business of the Target Group and the Enlarged Group are derived mainly from their operations in the PRC. Although the economy of the PRC has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to drive economic development. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy, but may also have a negative effect on the wastewater treatment industry. There is no assurance that any new economic reform measures implemented by the PRC government would not have a negative impact on the Target Group or the Enlarged Group.

In the event there are any unfavourable changes in the economic, political and social conditions in the PRC, the business, operations, results of operations and financial position of the Target Group and the Enlarged Group may be adversely affected.

The PRC legal system is evolving and changes in the applicable legal and regulatory framework may have a significant impact on the business of the Target Group and the Enlarged Group

The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. Generally, the PRC economy is developing at a faster pace than its legal system. There is therefore some degree of uncertainty in connection with whether and how existing laws and regulations will apply to certain events or circumstances and if so, the manner of such application.

Unlike common law jurisdictions like Singapore, decided cases do not form part of the legal structure of the PRC and have no binding effect. As such, the administration of the PRC laws and regulations may be subject to a certain degree of discretion by the government authorities. This may result in the outcome of dispute resolutions not having the level of consistency or predictability as in other countries with more developed legal systems. In addition, it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court of another jurisdiction. Accordingly, there may be a certain level of uncertainty in terms of legal protection available to the Target Group or the Enlarged Group under the laws of the PRC.

As the legal system in the PRC is still evolving, laws and regulations or the interpretation of the same may be subject to change. For example, changes to applicable legal or regulatory framework governing such licenses or permits may require the Target Group and/or the Enlarged Group to obtain additional approvals and licenses from the PRC government or regulatory authorities for the conduct of its operations in the PRC. In such event, the Target Group and the Enlarged Group may need to incur additional expenses in order to comply with such requirements. This will in turn affect the financial performance of the Target Group and the Enlarged Group, as their business cost will increase. Furthermore, there is no assurance that such approvals or licenses will be granted to the Target Group or the Enlarged Group promptly or at all. As a further example, the PRC government may impose restrictions on the amount of tariff that may be payable by municipal governments to water and wastewater treatment service providers like the Target Group or the Enlarged Group. As the business and operations of the Target Group and the Enlarged Group is dependent on the procurement of the relevant licenses or permits from the relevant authorities and is subject to a number of laws, rules and regulations, changes in such laws, rules and regulations may adversely affect the business, operations, results of operations and financial position of the Target Group and the Enlarged Group.

The payment of dividends by the Company's and the Target Company's operating subsidiaries in the PRC is subject to restrictions under the PRC law

Each of the Company and the Target Company operates its businesses through its operating subsidiaries in the PRC. The PRC laws require that dividends be paid only out of net profit, calculated according to the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. The PRC law requires foreign invested enterprises, including some of the subsidiaries of the Target Group and the Enlarged Group in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to fund the Target Group and Enlarged Group's operations and to service its indebtedness depends upon dividends received from these subsidiaries, any restrictions on the availability and usage of its major source of funding may impact their respective abilities to fund its operations and to service its indebtedness.

In the PRC, SAFE regulates the conversion of RMB into foreign currencies, and vice versa. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required when RMB is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies.

As the subsidiaries of the Target Company and the Company in the PRC generates substantially all of its revenue and these revenues are denominated in RMB, the ability of the PRC subsidiaries of the Target Company and the Company to pay dividends or make other distributions may be restricted by the PRC foreign exchange control restrictions. There is no assurance that there will be no changes to the foreign exchange policy of the PRC which may further limit the ability of the Target Group and the Enlarged Group to pay dividends or make other distributions to the Target Company or the Company, as the case may be.

In addition, the choice of investment of the Target Group and the Enlarged Group is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. The transfer of funds by Company or the Target Company to its subsidiaries in the PRC is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to registration with PRC governmental authorities in case of shareholder loans to the extent that the shareholder loans do not exceed the difference between the total amount of investment and the registered capital of the relevant PRC subsidiaries. These limitations on the flow of funds between the Company and the Target Company and their PRC subsidiaries could restrict the ability of the Enlarged Group and the Target Group to act in response to changing market conditions.

The Target Group and the Enlarged Group are exposed to risks associated with entering into contracts with the PRC government and other public organisations, and its performance may be significantly affected by government spending on infrastructure and other projects

The majority of the customers of the Target Group and the Enlarged Group include agencies or entities owned or otherwise controlled by the PRC government. Accordingly, PRC government funded projects may be subject to delays or changes as a result of changes in the PRC government's budgets or for other policy considerations.

The PRC government's spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC's economic conditions and changes in the policies of the PRC government. The revenue contributed by government and government-controlled customers of both the Target Group and the Enlarged Group account for the majority of their respective revenues. The Target Group and the Enlarged Group therefore have significant exposure to the risks associated with contracting with state organisations.

Disputes with governmental entities and/or other state organisations could potentially lead to contract termination if unresolved or such disputes may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, subjecting the Target Group or the Enlarged Group to more costs to resolve such disputes and payments due to the Target Group from these entities and/or organisations may also be delayed as a result.

In the event of changes to the PRC government's budgets or policies, the customers of the Target Group and the Enlarged Group may require the Target Group or the Enlarged Group to change its construction methods, equipment or other performance terms or direct it to reconfigure its designs or purchase specific equipment for the relevant project in connection with its engineering and construction projects or undertake additional obligations or change other contractual terms, thereby subjecting it to additional costs and potentially result in delays in project commencement or completion.

Both the Target Group and the Enlarged Group are subject to numerous environmental laws and regulations

The subsidiaries of the Target Group and the Enlarged Group in the PRC and their subcontractors are required to comply with numerous national and local laws and regulations relating to the protection of the environment and land use which are constantly changing, including obtaining or undertaking certain permits or acceptance procedures. There can be no assurance that the requirements to obtain such permits or undertake such acceptance procedures may not be made more stringent in the future and that such permits would be renewed when they expire. Failure to comply with environmental laws and regulations by the Target Group or the Enlarged Group or their sub-contractors may adversely affect the business, operations, results of operations and financial position of the Target Group and the Enlarged Group.

Environmental risks may adversely affect the Target Group's and the Enlarged Group's wastewater treatment business, profitability or financial condition

The wastewater treatment business is exposed to environmental risks due to the nature of its operations. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring compounds, or contamination resulting from man-made sources. If any such pollution or contamination occur in respect of the water supply of water treatment facilities, including those relating to the treatment of wastewater, raw water and water for human consumption, and the affected water treatment facility is unable to substitute a water supply from an uncontaminated water source, or to adequately and cost-effectively treat the contaminated water source, this could have an adverse effect on the business, operations, results of operations and financial position of the Target Group and the Enlarged Group.

The water supply to the wastewater treatment facilities of the Target Group and the Enlarged Group is also at risk of water shortages caused by prolonged periods of drought. If there are supply shortfalls caused by prolonged periods of drought, additional costs may be incurred by the relevant entity to provide emergency reinforcement of supplies to areas facing shortage. In addition, restrictions on water use may adversely affect the revenues of the Target Group and the Enlarged Group. In extreme circumstances, water shortages and restrictions on water use may lead to significant compensation becoming due to customers because of interruptions to supply, both of which could adversely affect the business, operations, results of operations and financial position of the Target Group and the Enlarged Group.

RISKS RELATING TO THE OWNERSHIP OF SHARES FOLLOWING COMPLETION OF THE PROPOSED TRANSACTIONS

The Vendor is expected to control more than 75% of the Enlarged Share Capital upon completion of the Proposed Transactions

On completion of the Proposed Transactions, the Vendor will control more than 75% of the Enlarged Share Capital. As a result, it will be able to significantly influence matters requiring the approval of shareholders (other than the approval of transactions for which it and its associates may be prohibited from voting) in a manner which may or may not be in the interests of other Shareholders, including the election of directors, the timing and payment of dividends, transactions such as the sale of all or substantially all of the Enlarged Group's assets, the merger or consolidation with another entity, capital restructuring and business ventures.

The Vendor will also effectively have veto power with respect to any Shareholder action or approval requiring a special resolution.

Such concentration of ownership will place the Vendor in a position to significantly affect corporate actions in a manner that could conflict with the interests of public Shareholders and may also have the effect of delaying, preventing or deterring a change in control of the Company, which may otherwise have benefited the Shareholders.

No prior market for the Shares on an Enlarged Group basis

The Shares have never been traded on an Enlarged Group basis. As such, there can be no assurance that an active trading market for the Shares will develop or, if developed, will be sustained.

Independent Shareholders will face immediate and substantial dilution and may experience future dilution to shareholdings

The completion of the Proposed Transactions will result in immediate dilution to the shareholdings of existing Independent Shareholders as the Consideration Shares will be allotted and issued to the Vendor and its nominees pursuant to the Proposed Acquisition. Following completion of the Proposed Transactions, it is possible that the Enlarged Group may require funding in order to grow and expand its operations. Under such circumstances, secondary issue(s) of securities may be necessary to raise the required capital to develop these growth opportunities. If new Shares are issued and placed to new and/or existing Shareholders, they may be priced at a discount to the then prevailing market price of Shares trading on the SGX-ST, in which case existing Shareholders' equity interest will be diluted. If the Enlarged Group fails to utilise the new equity to generate a commensurate increase in earnings, the EPS of the Enlarged Group will be diluted and this could lead to a decline in the market prices of its Shares.

The price of the Shares may fluctuate following the completion of the Proposed Transactions

The Effective Issue Price of the Consideration Shares allotted and issued in relation to the Proposed Acquisition may not be indicative of the price of the Shares that will prevail in the trading market. Volatility in the market price of the Shares may be caused by factors beyond the control of the Enlarged Group and may be unrelated and disproportionate to the operating results of the Enlarged Group.

The market price of the Shares may fluctuate significantly and rapidly as a result of, amongst other things, the following factors, some of which are beyond the control of the Enlarged Group:

(a) the success or failure of the Enlarged Group's management team in implementing business and growth strategies;

(b) changes in significant contracts, acquisitions, strategic alliances or capital commitments;

(c) loss of the Enlarged Group's major customers or failure to complete significant orders or contracts;

(d) variations in the operating results of the Enlarged Group;

(e) involvement in litigation;

(f) unforeseen contingent liabilities of the Enlarged Group;

(g) addition or departure of key personnel of the Enlarged Group;

(h) loss of an important business relationship or adverse financial performance by a significant customer or group of customers;

(i) changes in securities analysts' estimates of the Enlarged Group's financial performance and recommendations;

(j) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;

(k) differences between the Enlarged Group's actual financial operating results and those expected by investors and securities analysts; and

(l) changes in general market conditions and broad market fluctuations.

Future sale of securities by the Vendor may adversely affect the price of the Shares

Following Completion, the Vendor will hold 78% of the Enlarged Share Capital. Although the Consideration Shares held by the Vendor are subject to a moratorium (the details of which are set out in Section 6.5 titled "Moratorium" of the HanKore Letter), any sale of a significant number of such Shares after expiration of the applicable moratorium period or any permitted sale during the applicable moratorium period by the Vendor, or the perception that such sales may occur, could materially and adversely affect the market price of the Shares and may thereby also affect the Enlarged Group's ability to raise funds through the issue of equity or other forms of securities.

Negative publicity may adversely affect the price of the Shares

Negative publicity involving the Enlarged Group or any of the Enlarged Group Directors, Proposed Executive Officers and Substantial Shareholders of the Company may adversely affect the market perception or the price of the Shares. Some examples of the negative publicity are unsuccessful attempts in joint ventures and takeovers.

RISKS RELATING TO NON-FULFILMENT OF CONDITIONS

The Proposed Acquisition is conditional upon the fulfilment of several conditions precedent pursuant to the Acquisition Agreement. In the event that any of the conditions precedent are not fulfilled or waived by the relevant party by the Long-Stop Date, the Proposed Transactions will not take place and this may adversely affect the Company's future financial condition and results of operations.

PRC

The following is a summary of the main laws and regulations of the PRC that are relevant to the Target Group's business as at the Latest Practicable Date.

(a) PRC laws and regulations relating to land use rights and construction permits

The PRC laws and regulations on land use rights and construction permits include:

(i) the Land Administration Law of the PRC (《中华人民共和国土地管理法》), which was promulgated on 25 June 1986, became effective on 1 January 1987 and was last amended on 28 August 2004, and its relevant implementing regulations;

(ii) the Urban and Rural Planning Law of the PRC (《中华人民共和国城乡规划法》) which was promulgated on 28 October 2007 and became effective on 1 January 2008;

(iii) the Construction Law of the PRC (《中华人民共和国建筑法》) which was promulgated on 1 November 1997, became effective on March 1 1998 and was last amended on 22 April 2011 with effect from 1 July 2011; and

(iv) the Administrative Regulation of Construction Work Quality (《建设工程质量管理条例》) which was promulgated and became effective on 30 January 2000.

According to the relevant PRC laws and regulations, various certificates, permits and procedures are needed to commence and complete a construction project. The key certificates, permits and procedures are set forth below:

(i) Construction Land Use Planning Permit (建设用地规划许可证): a permit approving the location and area of the land used for construction, the scope of areas to be constructed on as well as other planning conditions;

(ii) Land Use Rights Certificate (土地使用权证): a certificate indicating the holder is entitled to use a parcel of land;

(iii) Construction Project Planning Permit (建设工程规划许可): a permit approving the planning and design of a construction project;

(iv) Construction Work Permit (建筑工程施工许可): a permit required for the commencement of construction;

(v) Inspection and Acceptance on Construction Completion (工程竣工验收): a procedure required to be carried out after the completion of a project prior to use of such project; and

(vi) Construction Completion Acceptance Filing (工程竣工验收备案): a filing procedure required to be carried out after the completion of Inspection and Acceptance on Construction Completion of a project.

(1) Construction Land Use Planning Permit (建设用地规划许可)

Pursuant to the Land Administration Law of the PRC (《中华人民共和国土地管理法》) and its relevant implementing regulations, land owned by the state may be granted or allocated to an entity (the "Project Company"). According to the Urban and Rural Planning Law of the PRC (《中华人民共和国城乡规划法》), a Construction Land Planning Permit is needed in relation to both land allotment (划拨) and land grant (出让). In the case of land allotment, the Project Company shall apply for a Construction Land Planning Permit after the project is approved or verified and recorded by the relevant department before it can apply for the land allotment. In the case of land grant, the Project Company shall apply for the Construction Land Planning Permit after the contract of the grant of land use right is executed. The planning conditions set out in such contract shall be incorporated in the Construction Land Planning Permit.

If approval for the use of land is erroneously issued to a Project Company which has not obtained the Construction Land Use Planning Permit, the approval shall be revoked by the people's government at or above the county level. If the land has been occupied by the Project Company, such land shall be returned in a timely manner. If losses are caused to relevant party, compensation shall be made according to law.

(2) Land Use Rights Certificate (土地使用权证)

In the case of land allotment, the Project Company may make an application to a people's government at or above the county level for a land use rights certificate after it has obtained a Construction Land Planning Permit. In the case of land grant, the Project Company may make an application to a people's government at or above the county level for a land use rights certificate after it has paid charges under the contract of grant of land use right.

A Project Company which uses land without approval may be ordered by a land administration department at or above the county level to return such land and may be subject to a penalty of up to RMB 30 per square metre of the land. A Project Company which converts land for agriculture to land for construction in breach of the plan for land utilisation may be ordered to demolish the structures and installations on the land within a specified time limit and restore the land to its original state. A Project Company which converts land for agriculture to land for construction but does not breach the plan for land utilisation may be subject to confiscation of the structures and installations on such land.

(3) Construction Project Planning Permit (建设工程规划许可)

According to the Urban and Rural Planning Law of the PRC (《中华人民共和国城乡规划法》), a Project Company shall obtain a Construction Project Planning Permit for constructing buildings, structures, roads, pipelines and other construction works. In applying for a Construction Project Planning Permit, the applicant should submit, *inter alia*, the relevant land use rights certificates.

If a Project Company engages in construction without obtaining the Construction Project Planning Permit or without complying with the provisions of such permit, it may be required to cease construction works. If measures for rectification can be adopted, the Project Company may be ordered to make rectification within a specified time limit and may be fined between 5% and 10% of the cost of the construction project. If measures for rectification cannot be adopted, the Project Company may be ordered to demolish the project within a specified time limit. If the project cannot be demolished, the project itself or the unlawful income may be confiscated and the Project Company may be fined up to 10% of the cost of the construction project.

(4) *Construction Work Permit (建筑工程施工许可)*

Pursuant to the Construction Law of the PRC (《中华人民共和国建筑法》) and the Administrative Regulation of Construction Work Quality (《建设工程质量管理条例》), a Project Company shall, prior to the commencement of a construction project, apply to the competent department of the construction administration at or above the county level for a Construction Work Permit. In applying for a Construction Work Permit, the applicant should submit, *inter alia*, the Construction Project Planning Permit.

If a Project Company carries out construction work without a Construction Work Permit it may be ordered to stop construction and to make rectifications within a specified time limit. It may also be liable to a fine of between 1% and 2% of the construction contract price of the project.

(5) *Inspection and Acceptance on Construction Completion and Filing (工程竣工验收及备案)*

Pursuant to the Construction Law of the PRC (《中华人民共和国建筑法》) and the Administrative Regulation of Construction Work Quality (《建设工程质量管理条例》), a Project Company shall, after it receives the report of construction completion of the construction project, request for inspection and acceptance of the project by the design, contractor and engineering supervisory institutions. The criteria include: (A) all items specified in the project design and the construction contract are finished; (B) all technical archives and construction management records have been provided; (C) the on-the-spot inspection report of key building materials, building components and fittings and equipment for the project have been provided; (D) the quality documents signed respectively by the survey, design, contractor and engineering supervisory institutions have been provided; and (E) the quality warranty signed by the contractor has been provided. The Project Company shall submit the report of inspection and acceptance of the construction project together with approvals from other departments such as planning, fire fighting and environment protection administration to the competent department for record within 15 days.

If a construction project is handed over without being inspected and accepted, the Project Company may be ordered to make rectifications and may be liable to a fine of between 2% and 4% of the construction contract price of the project. If a Project Company has caused losses to a third party, it shall compensate such third party in accordance with law. If a Project Company fails to submit the relevant documents to the competent department within the time limit, it may be ordered to make rectifications within a prescribed time limit and may be fined between RMB 200,000 and RMB 500,000.

(b) PRC laws and regulations relating to environmental protection

The PRC laws and regulations on environmental protection include:

(i) the Law of Environmental Protection of the PRC (《中华人民共和国环境保护法》), which was promulgated and became effective on 26 December 1989 and was last amended on 24 April 2014, with effect from 1 January 2015;

(ii) the Regulations on Environmental Protection Management for Construction Projects (《建设项目环境保护管理条例》) which were promulgated and became effective on 29 November 1998;

(iii) the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建设项目竣工环境保护验收管理办法》) which were promulgated on 27 December 2001, and became effective from 1 February 2002 and was last amended on 22 December 2010; and

(iv) the Law on Prevention and Control of Water Pollution of the PRC (《中华人民共和国水污染防治法》) which was promulgated on 11 May 1984 and became effective on 1 November 1984 and was last amended on 28 February 2008 and became effective on 1 June 2008, and its relevant implementing regulations.

(1) Environmental Completion Inspection and Acceptance (环保竣工验收)

According to the Regulations on Environmental Protection Management for Construction Projects (《建设项目环境保护管理条例》), the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建设项目竣工环境保护验收管理办法》) and the Law on Prevention and Control of Water Pollution of the PRC (《中华人民共和国水污染防治法》), upon the completion of a construction project, the Project Company shall request for inspection and acceptance of the completed environmental protection facilities by the competent administrative department of environmental protection. The environmental protection facilities shall be inspected for acceptance upon completion simultaneously with the inspection and acceptance of the principal part of a construction project.

A construction project shall not commence formal operations until the environmental protection facilities have been inspected and accepted. If the principal part of a construction project commences formal production before the completion of construction of, or inspection and acceptance of, facilities for prevention and control of water pollution, the competent administrative department of environmental protection may order a cessation of operations and may impose a fine ranging from RMB50,000 to RMB500,000.

(2) Pollutant Discharge Permit (排污许可证)

According to the Law on Prevention and Control of Water Pollution of the PRC (《中华人民共和国水污染防治法》) and its relevant implementing regulations, any enterprise or institution that directly or indirectly discharges industrial wastewater, medical sewage or other wastewater and sewage or operates facilities for centralised treatment of urban sewage is required to obtain a Pollutant Discharge Permit. According to the Regulations of Environmental Protection of Shandong Province (《山东省环境保护条例》), if a Project Company discharges pollutants but does not exceed pollutant discharge standards without a pollutant discharge permit, it may be warned, fined and ordered to apply for a pollutant discharge permit within the prescribed time limit. If a Project Company discharges pollutants exceeding the pollutant discharge standards without a pollutant discharge permit, it may be ordered to rectify such non-compliance within a prescribed time limit and may be liable to a penalty of RMB 500 to RMB 50,000. According to the Measures for the Administration of Water Pollutant Discharge Permit of Jiangsu Province (《江苏省排放水污染物许可证管理办法》), if a Project Company discharges pollutants without a pollutant discharge permit, it may be ordered to stop such discharge and may be liable to a penalty of RMB 10,000 to RMB 30,000.

(c) Local laws and regulations relating to the operation of public facilities

According to the Regulation on the Management of Urban Construction of Shandong Province (《山东省城市建设管理条例》) which was promulgated and became effective on 14 December 1996 and was last amended on 29 September 2010 and the Measures for the Administration of the Municipal Public Utilities Permit of Shandong Province (《山东省城市市政公用事业经营许可管理办法》) which were promulgated and became effective on 30 May 2006, a Project Company that operates municipal public utilities such as sewage treatment is required to apply for the public facility operation certificate for its operation.

If a Project Company operates municipal public utilities without a public facility operation certificate, it may be ordered to rectify such non-compliance and be liable to a penalty between RMB 1,000 and RMB 10,000.

Status of Compliance with PRC laws and regulations

As disclosed in Appendix E titled "Risk Factors" to this Circular, as at the latest Practicable Date, the Target Group Companies and HanKore Group Companies may not have obtained all certificates, permits or approvals or made the necessary filings for certain of their projects. Further to the application made on behalf of the Company, the SGX-ST has granted the Company a waiver of Rule 246(12) of the Listing Manual in respect of the certificates, permits, approvals that have not been obtained and necessary filings that have not been made.

Set out below is a summary of the status of the Target Group Companies and HanKore Group Companies in relation to such certificates, permits or approvals or necessary filings for their respective projects:

Name of Target Group Company	Project	Status of Compliance
Everbright Water (Zhangqiu) Ltd	Zhangqiu Wastewater Treatment Project	No construction work permit
Everbright Water (Ji'nan Licheng) Ltd	Expansion project of Plant 3, Phase 2 of the Jinan Licheng Wastewater Treatment Project	(1) No construction work permit (2) No construction completion acceptance filing
	Plant 3, Phase 1 of the Jinan Licheng Wastewater Treatment Project	No construction completion acceptance filing
Everbright Water (Ji'Nan) Ltd	Phase 4 of the Jinan Xike Wastewater Treatment Project	(1) No land use right (2) No construction project planning certificate (3) No construction work permit (4) No construction completion acceptance filing
Everbright Water (Jiangyin) Ltd	Innovation project of Shi Zhuang Wastewater Treatment Project	(1) No construction work permit (2) No construction project planning certificate
	Innovation project (Phase 1) of the Cheng Xi Wastewater Treatment Project	No construction work permit
	Cheng Xi Wastewater Treatment Project	(1) No construction completion acceptance inspection (2) No environmental completion acceptance
	Bin Jiang Wastewater Treatment Project	No construction completion acceptance inspection
	Shi Zhuang Wastewater Treatment Project	No construction completion acceptance inspection
Everbright Water (Zibo Zhoucun) Water Purification Ltd	Zibo Zhoucun Wastewater Treatment Project	(1) No land use right (2) No construction project planning certificate (3) No construction work permit (4) No construction completion acceptance inspection

Name of Target Group Company	Project	Status of Compliance
Zibo Everbright Water Energy Development Ltd	Zibo Heat Pump Project Phase II	(1) No environmental completion acceptance (2) No construction work permit (3) No construction completion acceptance inspection
	Zibo Heat Pump Project Phase I	No construction completion acceptance inspection
Everbright Water (Boxing) Ltd	Phase 1 of the Bin Zhou Boxing Wastewater Treatment Project	No land use right
	Expansion Project of Phase 2 of the Bin Zhou Boxing Wastewater Treatment Project	(1) No construction project planning certificate (2) No construction work permit (3) No construction completion acceptance inspection
Qingdao EB-VW Waste Water Treatment Ltd	Mai Dao Plant of the Qingdao Wastewater Treatment Project	No land use right

Name of HanKore Group Company	Project	Status of Compliance
Kunshan Gang Dong Wastewater Treatment Co., Ltd.	Upgrading and improvement of, and Phase 2 of, the Gang Dong Sewage Treatment Plant Project	No construction completion acceptance filing
Lianyungang King Fortune Water Co., Ltd.	Xugou Sewage Treatment Plant	No pollutant discharge permit
	Phase 1 of the Xugou Sewage Treatment Plant	No construction completion acceptance filing
Suzhou Jin Di Water Co., Ltd.	Phase 2 of the Chengnan Sewage Treatment BOT Project	No land use right certificate
Xianyang Bai Sheng Shui Purifying Co., Ltd.	Phase 1 of the Dongjiao Sewage Treatment BOT Project	No construction completion acceptance filing
Yangzhou HanKore Water Development Co., Ltd.	Stage 1 of Phase 1 of the Sewage Treatment Plant in the Fourth Village of Yanjiang, Jiangdu	No environmental completion acceptance
	Upgrading and improvement of Phase 1 of the Sewage Treatment Plant in the Fourth Village of Yanjiang, Jiangdu	(1) No land use right certificate (2) No construction project planning certificate (3) No construction work permit

Name of HanKore Group Company	Project	Status of Compliance
	N.A.	The pollutant discharge permit had expired on 27 March 2014, and an application has not been made for renewal of this permit. The renewal application will be made after Yangzhou HanKore Water Development Co., Ltd completes the environmental completion acceptance in relation to Stage 1 of Phase 1 of the Sewage Treatment Plant.
Nanjing Golden Idea Water Development Co., Ltd.	Phase 1 of the Zhujiang Sewage Treatment Plant Project	No construction completion acceptance filing
	Upgrading and improvement of Phase 1 of the Zhujiang Sewage Treatment Plant Project	(1) No construction project planning certificate (2) No construction work permit
	Upgrading and improvement of Phase 2 of the Zhujiang Sewage Treatment Plant Project	(1) No construction project planning certificate (2) No construction work permit
Nanjing Jin Huan Water Development Co., Ltd.	Liuhe Sewage Treatment Plant Project	(1) No pollutant discharge permit (2) No land use right certificate
	Stage 1 of Phase 1 of the Liuhe Sewage Treatment Plant Project	No construction completion acceptance filing
	Upgrading and improvement of Stage 1 of Phase 1 of the Liuhe Sewage Treatment Plant Project	No construction work permit
	Stage 2 of Phase 1 of the Liuhe Sewage Treatment Plant Project	No construction work permit
Sanmenxia HanKore Co., Ltd.	BOT Project relating to the Sewage Treatment Plant in the Industry Centralised Area of Sanmenxia city	No land use right certificate
	Phase 1 of the BOT Project relating to the Sewage Treatment Plant in the Industry Centralised Area of Sanmenxia city	No construction work permit

The Company's PRC counsel, Global Law Office, is of the view that, save for the issues stated below, subject to the relevant Target Group Companies and HanKore Group Companies having prepared and submitted the relevant documentations to the relevant authorities, and the relevant documentations of applications for the relevant licences, permits or certificates that have been submitted to the relevant authorities are in compliance with any and all applicable national and local laws and regulations and other requirements of the relevant authorities and other preceding requisite material permits, approvals, filings or other preceding procedures having been obtained or completed, there is no legal impediment to their applications for the relevant licences, permits or certificates:

(a) Everbright Water (Ji'nan Licheng) Ltd has not completed the construction completion acceptance filings in respect of Plant 3 (Phase 1) of the Jinan Licheng Wastewater Treatment Project.

Global Law Office is of the view that, to the extent there is any delay in Everbright Water (Ji'nan Licheng) Ltd making the construction completion acceptance filing, Everbright Water (Ji'nan Licheng) Ltd should have contractual recourse against Ji'Nan Municipal Public Facility Bureau, the counterparty to the concession agreement entered into with Everbright Water (Ji'nan Licheng) Ltd, under the concession agreement as such delay is caused by Ji'Nan Municipal Public Facility Bureau failing to obtain the land use right certificate from Ji'Nan Municipal Bureau of Land and Resources.

(b) Everbright Water (Jiangyin) Ltd has not obtained the construction project planning certificate and construction work permit for the innovation project of Shi Zhuang Wastewater Treatment Project.

The innovation project of Shi Zhuang Wastewater Treatment Project is a TOT project which was transferred from Jiang Yin Municipal Public Facility Bureau, the counterparty to the concession agreement entered into with Everbright Water (Jiangyin) Ltd, to Everbright Water (Jiangyin) Ltd. The delay in obtaining the construction project planning certificate and construction work permit is due to Jiang Yin Municipal Public Facility Bureau not having obtained the initial construction project planning certificate and the construction work permit prior to the transfer of the project.

(c) Everbright Water (Jiangyin) Ltd has not completed the construction completion acceptance inspection in relation to the Shi Zhuang wastewater treatment project.

The Shi Zhuang wastewater treatment project is a TOT project which was transferred from Jiang Yin Municipal Public Facility Bureau to Everbright Water (Jiangyin) Ltd. During such transfer, certain documents required to be submitted for the construction completion acceptance were misplaced by Jiang Yin Municipal Public Facility Bureau. As such documents cannot be re-issued and this issue cannot be rectified, Everbright Water (Jiangyin) Ltd is unable to complete the construction completion acceptance inspection.

(d) Nanjing Jin Huan Water Development Co., Ltd. has not completed the construction completion acceptance filing in relation to Stage 1 of Phase 1 of the Liuhe Sewage Treatment Plant Project.

The shares of Nanjing Jin Huan Water Development Co., Ltd. was transferred to HanKore from an independent third party ("**transferor**"), during such transfer, certain documents required to be submitted for the construction completion acceptance filing were misplaced by transferor. As such documents cannot be re-issued and this issue cannot be rectified, Nanjing Jin Huan Water Development Co., Ltd. is unable to complete the construction completion acceptance filing.

Global Law Office is of the view that, within their practice experiences and to the best of their knowledge, the probability of enforcement such as returning the land, confiscation and demolishment of the buildings as well as imposition of monetary penalties is not high in the wastewater treatment industry where non-compliance arises from similar background and reasons as mentioned above. Within Global Law Office's practice experiences and to the best of their knowledge, Global Law Office has not noticed such actions taken against companies in the wastewater treatment industry where non-compliance arises from the similar background and reasons mentioned above.

Rectification Measures and Improvement of Internal Control Measures

With respect to the projects for which the Enlarged Group is required and able to obtain the relevant certificates and/or permits, and/or complete the relevant procedures, the Enlarged Group is in the process of applying for such certificates and/or permits, and/or of initiating acceptance check on completion of construction. The Enlarged Group will use its best efforts to communicate with the relevant government authorities periodically to obtain appropriate confirmations and monitor the progress of its applications. In this regard, the Enlarged Group relies on its marketing department and construction management centre, its project managers as well as certain members of its senior management to establish and maintain contact with the relevant government officials responsible for processing such applications. However, the Enlarged Group's applications depend, to a large extent, on government internal procedures and therefore, the Enlarged Group cannot guarantee the timing in which such government authorities will provide appropriate confirmations or issue the relevant certificates and/or permits to the Enlarged Group.

With regard to the projects for which the Enlarged Group's customers (which are primarily the municipal, provincial or state authorities who are parties to the concession agreements entered into with the relevant project companies) are required to obtain the relevant certificates and/or permits, and/or to complete the acceptance check on completion of construction pursuant to the terms of the relevant service concession agreements, the Enlarged Group has actively communicated with such authorities or their designees and urged them to obtain the relevant certificates and/or permits and/or complete the acceptance check procedures on a timely basis. As a measure to mitigate its operational risk with respect to such projects, the Enlarged Group will continue to work closely with its customers to obtain the relevant confirmations, certificates and/or permits. Subsequent to Completion, the Enlarged Group will provide updates in its annual reports in relation to outstanding non-compliance instances described in this Circular which have been rectified in that financial year.

Going forward, the Enlarged Group intends to obtain appropriate land use rights certificates and/or planning and construction permits and/or complete the relevant procedures before the commencement of construction on any future projects.

The Enlarged Group will adopt the following measures to avoid any future recurrence of such non-compliance:

(i) the Enlarged Group will seek to negotiate the provisions in its BOT, BOO, BT and TOT contracts on the basis that its customers are obliged to provide (as opposed to assisting the Enlarged Group to obtain) the land use rights certificates, which shall be registered under the names of the relevant project companies within the Enlarged Group, and enter into such contracts on the foregoing basis;

(ii) the person-in-charge of the relevant project company shall monitor and take appropriate steps to ensure, to the extent practicable, that the Enlarged Group's customers perform such obligations under the relevant BOT, BOO, BT and TOT contracts and the project companies shall commence the applications for the relevant certificates and/or permits in accordance with the actual requirements and progress of the relevant projects in a timely manner; and

(iii) in any event, if relevant third-party project companies fail to obtain the land title certificates or other permits, the Enlarged Group will take appropriate steps to ensure, to the extent practicable, that its customers will provide assistance to the Enlarged Group so the Enlarged Group can obtain confirmations from competent governmental authorities to the effect that such governmental authorities will not impose any penalty on the relevant project companies within the Enlarged Group in respect of the lack of land title certificate and/or other permits and the Enlarged Group may continue to use and occupy the land and/or carry out related construction work.

In addition, the Enlarged Group has strengthened its internal control system through the following measures:

(i) the Enlarged Group will establish a risk control centre to identify any non-compliance with relevant PRC laws and regulations during the new project contract negotiation stage and monitor and rectify outstanding non-compliance to mitigate the Enlarged Group's operational risks;

(ii) the Enlarged Group will formulate a checklist setting out all the relevant documentation, approvals and permits required to be obtained for each project;

(iii) the Enlarged Group will engage a qualified PRC law firm as its compliance counsel to assist the Enlarged Group's Board to identify and manage the legal risks associated with the Enlarged Group's daily operations and advise the Enlarged Group on relevant regulatory matters to ensure due compliance with applicable PRC laws, rules and regulations; and

(iv) the Enlarged Group will implement legal education programs for the Enlarged Group's Directors and management personnel covering, in particular, relevant PRC environmental laws and regulations.

The above internal control measures will be subject to the oversight of the Audit Committee and the Enlarged Group's Directors.

After adopting the above internal control measures, the Enlarged Group's Directors are of the view that the Enlarged Group has adequate internal control systems in place for its property related compliance in the future, and therefore are able to comply with the internal control requirements under the Listing Rules.

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and exchange control in Bermuda, the British Virgin Islands, Singapore and the PRC and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the Latest Practicable Date, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion on taxation is limited to a general description of certain tax consequences in Singapore with respect to ownership of the Shares by Singapore investors and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Shares.

Prospective investors should consult their tax advisers regarding Singapore tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither the Company, Directors nor any other persons involved in this Circular or the transactions contemplated herein accepts responsibility for any tax effects or liabilities resulting from the allotment and issue, purchase, holding or disposal of the Shares.

TAXATION

Bermuda

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until a specified date, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

Stamp Duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

Singapore

The statements made herein regarding taxation are general in nature and based on certain aspects of the tax laws of Singapore and administrative guidelines issued by the relevant authorities in force as of the date of this Circular and are subject to any changes in such laws or administrative guidelines, or in the interpretation of these laws or guidelines, occurring after such date, which changes could be made on a retrospective basis. These laws and guidelines are also subject to various interpretations, and the relevant tax authorities or the courts could *later disagree with the explanations or conclusions set out below. The statements below are not to be regarded as advice on the tax position of Shareholder or of any person acquiring, selling or otherwise dealing with the Shares or on any tax implications arising from the acquisition, sale or other dealings in respect of the Shares. The statements made herein do not purport to be a comprehensive or exhaustive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Shares and do not purport to deal with the tax consequences applicable to all categories of investors some of which (such as dealers in securities) may be subject to special rules. The statements below are based on the assumption that the Company is a tax resident in Singapore for Singapore income tax purposes. It is emphasised that neither the Company nor any other persons involved in this Circular accept responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares.*

Individual income tax

An individual is a tax resident in Singapore in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he resides in Singapore.

Individual taxpayers who are Singapore tax residents are subject to Singapore income tax on income accruing in or derived from Singapore, unless the income is specifically exempt from tax in Singapore. All foreign-sourced income received in Singapore on or after January 1, 2004 by a Singapore tax resident individual (except for income received through a partnership in Singapore) is exempt from Singapore income tax if the Comptroller of Income Tax in Singapore ("**Comptroller**") is satisfied that the tax exemption would be beneficial to the individual.

A Singapore tax resident individual is taxed at progressive rates ranging from 0.0% to 20.0% Non-resident individuals, subject to certain exceptions and conditions, are subject to Singapore income tax on income accruing in or derived from Singapore (other than employment income) at the rate of 20.0%. Non-resident individuals receiving Singapore employment income are taxed at a flat rate of 15.0% or resident rates whichever gives rise to a higher tax payable.

Corporate income tax

A corporate taxpayer is regarded as resident in Singapore for Singapore tax purposes if the control and management of its business is exercised in Singapore.

Corporate taxpayers who are Singapore tax residents are subject to Singapore income tax on income accruing in or derived from Singapore and, subject to certain exceptions, on foreign sourced income received or deemed to be received in Singapore. Under section 13(8) of the Income Tax Act (Chapter 134 of Singapore) ("**ITA**"), foreign-sourced income in the form of dividends, branch profits and services income received or deemed to be received in Singapore by Singapore tax resident companies on or after 1 June 2003 are exempt from tax if certain prescribed conditions are met, including the following:

(1) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received; and

(2) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received on any gains or profits from any trade or business carried on by any company in that territory at that time is not less than 15.0%.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore with respect to such conditions. In particular, companies engaged in substantive business activities overseas that remit their foreign-sourced dividend, foreign branch profits and foreign-sourced service income to Singapore but are unable to meet the conditions for tax exemption under section 13(8) of the ITA may be granted tax exemption under section 13(12) of the ITA if they remit their specified foreign income under specific scenarios and satisfy the qualifying conditions.

A non-resident corporate taxpayer is subject to income tax on income that is accrued in or derived from Singapore, and on foreign-sourced income received or deemed received in Singapore, subject to certain exceptions.

The corporate tax rate is 17.0% with effect from year of assessment 2010. In addition, three quarters of up to the first S$10,000, and one-half of up to the next S$290,000, of a company's chargeable income otherwise subject to normal taxation is exempt from corporate tax. The remaining chargeable income will be fully taxable at the corporate tax rate.

New companies will also, subject to certain conditions, be eligible for full tax exemption on their normal chargeable income of up to S$100,000 a year for each of the company's first three years of assessment.

Dividend distributions

Where the Company is not tax resident in Singapore

As the Company is incorporated in Bermuda and the control and management of its business is exercised outside of Singapore, the Company would not be treated a tax resident of Singapore.

Dividends paid by the Company in respect of the Shares would be considered as income sourced outside Singapore (unless the Shares are held as part of a trade or business carried out in Singapore in which case, the holders of such Shares may be taxed on the dividends as they are derived).

To the extent that this foreign sourced dividend income is received or deemed received in Singapore by an individual who is either a resident or non-resident of Singapore for tax purposes, it will generally be exempt from Singapore tax (except where such income is received by a Singapore tax resident through a partnership in Singapore).

Foreign-sourced dividends on the Shares received or deemed received by corporate investors who are tax resident in Singapore will be liable to Singapore income tax. However, if the conditions for the exemption of the foreign-sourced income are met, the dividends on the Shares received by corporate investors resident in Singapore could be exempt from Singapore income tax.

Foreign-sourced dividends on the Shares received or deemed received in Singapore by corporate investors who are not tax resident in Singapore and who do not have a permanent establishment or tax presence in Singapore will generally not be subject to income tax in Singapore.

Where the Company is tax resident in Singapore

Where the Company is treated as a tax resident of Singapore, dividends received in respect of the Shares by either a resident or non-resident of Singapore are not subject to Singapore withholding tax.

Under the one-tier corporate tax system, the tax on corporate profits is final and dividends paid by a Singapore resident company are tax exempt in the hands of a shareholder, regardless of whether the shareholder is a company or an individual and whether or not the shareholder is a Singapore tax resident.

Gains on disposal of Shares

Singapore does not impose tax on capital gains. There are no specific laws or regulations which deal with the characterisation of whether a gain is income or capital in nature. Gains arising from the disposal of the Shares may be construed to be of an income nature and subject to Singapore income tax, especially if they arise from activities which are regarded as the carrying on of a trade or business and the gains are sourced in Singapore.

In addition, shareholders who apply, or who are required to apply, the Singapore Financial Reporting Standard 39 Financial Instruments — Recognition and Measurement ("**FRS 39**") for the purposes of Singapore income tax may be required to recognise gains or losses (not being gains or losses in the nature of capital) in accordance with the provisions of FRS 39 (as modified by the applicable provisions of Singapore income tax law) even though no sale or disposal of the Shares is made. Shareholders who may be subject to such tax treatment should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Shares.

Stamp duty

There is no stamp duty payable on the holding of the Shares.

Where the Shares evidenced in certificated form are acquired in Singapore, stamp duty is payable on the instrument of transfer of the Shares at the rate of S$0.20 for every S$100 or part thereof of the consideration for, or market value of, the Shares, whichever is higher. The stamp duty is borne by the purchaser unless there is an agreement to the contrary. Where an instrument of transfer is executed outside Singapore or no instrument of transfer is executed, no stamp duty is payable on the acquisition of the Shares. However, stamp duty may be payable if the instrument of transfer is executed outside Singapore and is received in Singapore.

Stamp duty is not applicable to electronic transfers of the Shares through the scripless trading system operated by CDP.

Estate duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

Goods and services tax ("GST")

The sale of the Shares by a GST-registered investor belonging in Singapore for GST purposes to another person belonging in Singapore is an exempt supply not subject to GST. Any input GST incurred by the GST-registered investor in making such an exempt supply is generally not recoverable from the Singapore Comptroller of GST.

Where the Shares are supplied by a GST-registered investor in the course of or furtherance of a business carried on by such investor contractually to and for the direct benefit of a person belonging outside Singapore, the sale should generally, subject to satisfaction of certain conditions, be considered a taxable supply subject to GST at 0.0%. Any input GST incurred by the GST-registered investor in making such a supply in the course of or furtherance of a business carried on by such investor may be fully recoverable from the Singapore Comptroller of GST.

Services consisting of arranging, broking, underwriting or advising on the issue, allotment or transfer of ownership of the Shares rendered by a GST-registered person to an investor belonging in Singapore for GST purposes in connection with the investor's purchase, sale or holding of our Shares will be subject to GST at the standard rate of 7.0%. Similar services rendered contractually to and for the direct benefit of an investor belonging outside Singapore should generally, subject to satisfaction of certain conditions, be subject to GST at 0.0%.

EXCHANGE CONTROLS

Bermuda

Exchange control is operated under the Exchange Control Act 1972 of Bermuda (and the regulations made thereunder) and is administered by the Bermuda Monetary Authority. Generally, any payment by a person resident in Bermuda to or for the credit of a person resident outside Bermuda will require prior approval from the Bermuda Monetary Authority.

Exempted companies are normally designated non-resident for exchange control purposes and are able to conduct their day-to-day operations free of exchange control formalities. Such companies are able to pay dividends, distribute capital, open and maintain bank accounts in any foreign currency and to acquire assets and meet all liabilities without reference to the Bermuda Monetary Authority.

Issues and transfers of securities in exempted companies involving non-residents for exchange control purposes must receive prior approval from the Bermuda Monetary Authority. However, the Bermuda Monetary Authority has granted to all Bermuda companies with voting shares listed on an appointed stock exchange a general permission for the issue and subsequent transfer of any securities of such companies from and/or to a non-resident of Bermuda for so long as any voting shares of such companies remain so listed.

British Virgin Islands

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the British Virgin Islands.

Singapore

Currently, no foreign exchange control restrictions are enforced in Singapore.

PRC

Foreign exchange in the PRC is primarily regulated and controlled by:

(a) The PRC Regulations on Foreign Exchange Control Regulations of the PRC (中华人民共和国外汇管理条例, the "**Foreign Exchange Regulation**");

(b) Regulations on Sale of and Payment in Foreign Currency (结汇、售汇及付汇管理规定, the "**Administration Rules**");

(c) Notice of the General Department of the SAFE on Improvement on Business Operation Issues Concerning the Foreign-Invested Enterprises' Administration of the Payment and Settlement of Capital in Foreign Currency (国家外汇管理局综合司关于完善外商投资企业外汇资本金支付结汇管理有关业务操作问题的通知, the "**Notice 142**");

(d) Notice of the SAFE on Relevant Issues Concerning Strengthening the Management of Foreign Currency Services (国家外汇管理局关于加强外汇业务管理有关问题的通知, the "**Notice [2010] 59**");

(e) Supplemental Notice of the General Department of the SAFE on Improvement on Business Operation Issues Concerning the Foreign-Invested Enterprises' Administration of the Payment and Settlement of Capital in Foreign Currency (国家外汇管理局综合司关于完善外商投资企业外汇资本金支付结汇管理有关业务操作问题的补充通知, the "**Notice 88**"); and

(f) Notice of the SAFE on Further Improvement on and Adjustment of Foreign Exchange Administration Policies for Direct Investments (国家外汇管理局关于进一步改进和调整直接投资外汇管理政策的通知, the "**Notice [2012] 59**").

The Foreign Exchange Regulation was promulgated by State Council on 29 January 1996, as amended on 14 January 1997 and on 1 August 2008. Under the Foreign Exchange Regulation, the RMB is convertible for most current account items, including the distribution of dividends, interest payments, and trade and service-related foreign exchange transactions. Conversion of RMB into foreign currency for certain capital account items, such as direct investment, loans, investment in securities and repatriation of funds, however, is subject to the approval of the SAFE. FIEs are required to complete the foreign exchange registration and obtain the registration certificate.

The Administration Rules was promulgated by The PBOC on 20 June 1996 and effective from 1 July 1996. Under the Administration Rules, FIEs may only buy, sell and remit foreign currencies at banks authorised to conduct foreign exchange transactions after providing valid commercial documents and, in the case of certain capital account item transactions, only after obtaining approval from SAFE.

The Notice 142 was promulgated by SAFE, on 29 August 2008 to regulate the conversion of foreign currency into RMB by FIEs through restricting how the converted RMB may be used. It requires that RMB converted from the foreign currency dominated capital of an FIE may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. It is also prohibited to use the settled foreign exchange capital for purchasing domestic properties for any purpose other than its own use, unless the enterprise is a foreign funded property enterprise. In addition, SAFE strengthened its oversight over the flow and use of RMB funds converted from the foreign currency dominated capital of a FIE, which the use of such RMB may not be changed without approval from SAFE, and may not be used to repay RMB loans if the proceeds of such loans have not yet been used. Under the Notice 142, FIEs shall authorise an accounting firm to conduct capital verification before applying for the settlement of the foreign exchange capital.

The Notice [2010] 59 was promulgated by SAFE on 9 November 2010, under which SAFE strengthened its oversight on authenticity examination of settlement of capital raised from overseas listing and converted back. The capital shall only be used for the purpose within scope of the prospectus. The board resolution shall be required to submit to authorities for extra raised funds or for the purpose not clarified in this Prospectus.

The Notice 88 was promulgated by SAFE on 18 July 2011 to regulate foreign exchange payment and settle system by restricting and strengthening authenticity examination on document submitted by FIEs. FIEs shall further submit an original copy of invoice or other payment evidence which can prove that the settlement exchange capital has been paid according to the payment command letter, as well as the print document of authentic certificate of network invoice with a seal of the enterprise or its financial department, other than documents and materials which have been submitted according to the Notice 142.

Notice [2012] 59 was promulgated by SAFE on 19 November 2012 to abolish some approvals and registration required for foreign exchange items and to simplify some foreign exchange procedures. For example, it abolishes approval required for foreign investors to increase capital of a FIE and for a FIE to conduct investment in the PRC if its earnings are legally obtained in the PRC. Notice [2012] 59 also simplifies procedures for settlement of foreign currency capital, i.e. for some foreign capital items which are not classified under capital items expressly prescribed in current laws and regulations, but which meet the principles of authenticity and self use within the scope of business, the bank can directly approve the settlement of foreign currency capital and the corresponding payment after an authenticity examination without any pre-filing procedures before SAFE.

The financial information of the Target Group as included in Appendix H to this Circular has been reproduced from the audited consolidated financial statements of the China Everbright Water Investments Limited and its subsidiaries for the financial years ended 31 December 2011, 2012 and 2013, with the exception that the pages have been renumbered.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF CHINA EVERBRIGHT WATER INVESTMENTS LIMITED
(INCORPORATED IN THE BRITISH VIRGIN ISLANDS WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of China Everbright Water Investments Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 3 to 70, which comprise the consolidated balance sheets as at 31 December 2011, 2012 and 2013, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2011, 2012 and 2013 and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2011, 2012 and 2013 and of the Group's consolidated profits and cash flows for each of the years ended 31 December 2011, 2012 and 2013 in accordance with International Financial Reporting Standards.

Use of report

This report is intended solely for the information of, and use by, the board of directors of the Company and is not intended for any other purpose. This report should not be disclosed, referred to or quoted in whole or in part without our prior written consent.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 May 2014

CONSOLIDATED INCOME STATEMENTS

(Expressed in Hong Kong dollars)

		Year ended 31 December		
	Note	2011	2012	2013
		$'000	$'000	$'000
Turnover	3	854,532	1,391,027	1,290,740
Direct costs and operating expenses		(399,497)	(906,305)	(761,478)
		455,035	484,722	529,262
Other revenue	4	10,138	22,093	17,290
Other loss	4	(349)	(12)	(84)
Administrative expenses		(55,438)	(49,740)	(65,714)
Profit from operations		409,386	457,063	480,754
Finance costs	5(a)	(106,357)	(90,682)	(78,759)
Profit before taxation	5	303,029	366,381	401,995
Income tax	6(a)	(72,228)	(98,149)	(111,553)
Profit for the year		230,801	268,232	290,442
Attributable to:				
Equity shareholders of the Company		203,026	246,676	266,486
Non-controlling interests		27,775	21,556	23,956
Profit for the year		230,801	268,232	290,442

The notes on pages 13 to 70 form part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Profit for the year	230,801	268,232	290,442
Other comprehensive income for the year:			
Item that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of financial statements of subsidiaries, net of nil tax	89,053	23,682	83,148
Total comprehensive income for the year	319,854	291,914	373,590
Attributable to:			
Equity shareholders of the Company	278,665	270,856	340,697
Non-controlling interests	41,189	21,058	32,893
Total comprehensive income for the year	319,854	291,914	373,590

The notes on pages 13 to 70 form part of these financial statements.

CONSOLIDATED BALANCE SHEETS

(Expressed in Hong Kong dollars)

		As at 31 December		
	Note	**2011**	**2012**	**2013**
		$'000	**$'000**	**$'000**
Non-current assets				
Fixed assets	8			
— Property, plant and equipment		98,209	181,350	162,628
— Interest in leasehold land held for own use under operating leases		7,941	7,703	7,587
		106,150	189,053	170,215
Intangible assets	9	64,798	146,862	148,043
Goodwill	10	9,538	9,538	9,538
Interest in associate	11	—	—	—
Other receivables and deposits	12	1,698,239	1,765,026	1,891,766
Gross amounts due from customers for contract work	13	1,610,289	1,923,673	2,149,181
		3,489,014	4,034,152	4,368,743
Current assets				
Inventories	14	8,476	8,174	7,162
Debtors, other receivables, deposits and prepayments	12	267,646	322,762	422,193
Gross amounts due from customers for contract work	13	170,048	251,326	298,234
Tax recoverable	20(a)	—	2,349	3,741
Pledged bank deposits	15	106,333	46,289	43,468
Cash and cash equivalents	16	448,435	170,552	246,945
		1,000,938	801,452	1,021,743

	Note	As at 31 December 2011 $'000	2012 $'000	2013 $'000
Current liabilities				
Bank loans	17			
— Secured		227,304	236,931	237,870
— Unsecured		72,816	54,967	39,901
		300,120	291,898	277,771
Creditors, other payables and accrued expenses	18	252,586	476,369	619,999
Current taxation	20(a)	6,348	17,906	22,271
		559,054	786,173	920,041
Net current assets		441,884	15,279	101,702
Total assets less current liabilities		3,930,898	4,049,431	4,470,445
Non-current liabilities				
Bank loans	17			
— Secured		726,663	575,451	423,098
— Unsecured		233,577	197,359	163,060
		960,240	772,810	586,158
Other loans	19	55,350	—	—
Other payables	18	1,309,131	1,413,693	1,587,389
Deferred tax liabilities	20(b)	191,455	245,123	305,503
		2,516,176	2,431,626	2,479,050
NET ASSETS		1,414,722	1,617,805	1,991,395

	Note	As at 31 December 2011 $'000	2012 $'000	2013 $'000
CAPITAL AND RESERVES				
Share capital	22(a)	—*	—*	—*
Reserves		1,037,334	1,308,190	1,648,887
Total equity attributable to equity shareholders of the Company		1,037,334	1,308,190	1,648,887
Non-controlling interests		377,388	309,615	342,508
TOTAL EQUITY		1,414,722	1,617,805	1,991,395

* The balances represent amounts less than HK$1,000.

Approved and authorised for issue by the board of directors on 30 May 2014

Chen Xiaoping)
)
) Directors
Wong Kam Chung, Raymond)
)

The notes on pages 13 to 70 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company					Non-	
	Share capital $'000	Exchange reserve $'000	Reserve fund $'000	Retained profits $'000	Total $'000	controlling interests $'000	Total Equity $'000
Balance at 1 January 2011	—*	170,456	25,052	563,161	758,669	336,199	1,094,868
Changes in equity for 2011:							
Profit for the year	—	—	—	203,026	203,026	27,775	230,801
Other comprehensive income	—	75,639	—	—	75,639	13,414	89,053
Total comprehensive income	—	75,639	—	203,026	278,665	41,189	319,854
Transfer to reserve fund	—	—	12,077	(12,077)	—	—	—
Balance at 31 December 2011 and 1 January 2012	—*	246,095	37,129	754,110	1,037,334	377,388	1,414,722
Changes in equity for 2012:							
Profit for the year	—	—	—	246,676	246,676	21,556	268,232
Other comprehensive income	—	24,180	—	—	24,180	(498)	23,682
Total comprehensive income	—	24,180	—	246,676	270,856	21,058	291,914
Transfer to reserve fund	—	—	15,237	(15,237)	—	—	—
Capital refunded to non-controlling shareholder	—	—	—	—	—	(73,908)	(73,908)
Dividend paid to non-controlling shareholders	—	—	—	—	—	(14,923)	(14,923)
Balance at 31 December 2012	—*	270,275	52,366	985,549	1,308,190	309,615	1,617,805
Balance at 1 January 2013	—*	270,275	52,366	985,549	1,308,190	309,615	1,617,805
Changes in equity for 2013:							
Profit for the year	—	—	—	266,486	266,486	23,956	290,442
Other comprehensive income	—	74,211	—	—	74,211	8,937	83,148
Total comprehensive income	—	74,211	—	266,486	340,697	32,893	373,590
Transfer to reserve fund	—	—	19,613	(19,613)	—	—	—
Balance at 31 December 2013	—*	344,486	71,979	1,232,422	1,648,887	342,508	1,991,395

* The balances represent amounts less than HK$1,000.

The notes on pages 13 to 70 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in Hong Kong dollars)

	Note	Year ended 31 December 2011 $'000	2012 $'000	2013 $'000
Operating activities				
Profit before taxation		303,029	366,381	401,995
Adjustments for:				
Depreciation	5(c)	6,386	8,810	13,913
Amortisation of intangible assets	5(c)	—	2,032	2,945
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	105	322	330
Finance costs	5(a)	106,357	90,682	78,759
Interest income	4	(6,546)	(11,732)	(6,798)
Net loss on sale of property, plant and equipment	4	349	12	84
Effect of foreign exchange rates changes		(7,060)	(7,832)	(1,513)
Changes in working capital:				
Decrease in inventories		520	396	1,244
Decrease/(increase) in debtors, other receivables, deposits and prepayments		595,470	(125,047)	(130,471)
Increase in gross amounts due from customers for contract work		(570)	(374,977)	(210,678)
(Decrease)/increase in creditors, other payables and accrued expenses		(202,819)	123,816	149,573
Cash generated from operations carried forward		795,221	72,863	299,383
Cash generated from operations brought forward		795,221	72,863	299,383
Interest received		6,546	11,732	6,798
People's Republic of China ("PRC") income tax paid		(24,036)	(37,982)	(55,909)
Net cash generated from operating activities		777,731	46,613	250,272
Investing activities				
Payment for purchase of property, plant and equipment		(52,057)	(88,274)	(12,290)

	Note	Year ended 31 December 2011 $'000	2012 $'000	2013 $'000
Payment for additions of interest in leasehold land held for own use under operating leases		(7,882)	—	—
Payment for additions of intangible assets		(24,414)	(82,432)	—
Proceeds from sale of property, plant and equipment		114	—	—
(Increase)/decrease in amounts due from intermediate holding company		(55,768)	71,820	(40,133)
Increase in loan receivable		—	(49,172)	—
Net cash used in investing activities		(140,007)	(148,058)	(52,423)
Financing activities				
Proceeds from new bank loans		62,238	113,805	85,861
Repayment of bank loans		(515,310)	(320,983)	(313,611)
Repayment of other loans		—	(55,318)	—
Increase in amount due to a fellow subsidiary		13,716	95,520	2,389
Increase in amounts due to immediate holding company		92,446	147,919	167,455
(Decrease)/increase in amounts due to intermediate holding company		(311)	(43,357)	6,241
Capital refunded to non-controlling shareholder		—	(73,908)	—
(Increase)/decrease in pledged bank deposits		(91,404)	60,516	4,135
Interest paid		(106,357)	(90,682)	(78,759)
Dividend paid to non-controlling shareholders		—	(14,923)	—
Net cash used in financing activities		(544,982)	(181,411)	(126,289)
Net increase/(decrease) in cash and cash equivalents		92,742	(282,856)	71,560
Cash and cash equivalents at beginning of the year		341,897	448,435	170,552
Effect of foreign exchange rates changes		13,796	4,973	4,833
Cash and cash equivalents at end of the year	16	448,435	170,552	246,945

The notes on pages 13 to 70 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements relating to the Group including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated balance sheets of the Group as at 31 December 2011, 2012 and 2013, together with the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB").

These consolidated financial statements are the first set of the Company's financial statements prepared in accordance with IFRSs. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied in preparing the consolidated financial statements.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these consolidated financial statements, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 29.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

(b) Basis of presentation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associate.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Basis of measurement

The consolidated financial statements are presented in Hong Kong dollars, rounded to the nearest thousand. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see notes 1(f) and (j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, from 20 to 50 years after the date of completion.

— Plant and machinery	10 to 25 years
— Leasehold improvements	10 years or over the remaining term of the lease, if shorter
— Furniture and fixtures	5 to 10 years
— Motor vehicles, electronic equipment and other fixed assets	3 to 12 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets (other than goodwill)

Intangible assets represent operating rights of environmental water and related services projects. The intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(j)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives of 30 years. Both the period and method of amortisation are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely that the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investment in associate accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of debtors included within debtors, other receivables, deposits and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories, mainly comprise spare parts and consumables used in the repairs and maintenance, are carried at cost less provision for obsolescence (if any). Cost is calculated using the weighted average cost formula. When inventories are consumed, the carrying amount of those inventories is recognised as an expense in profit or loss.

(l) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(t)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Debtors, other receivables, deposits and prepayments".

(m) Debtors, other receivables, deposits and prepayments

Debtors, other receivables, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Creditors, other payables and accrued expenses

Creditors, other payables and accrued expenses are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), creditors, other payables and accrued expenses are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within creditors, other payables and accrued expenses. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors, other payables and accrued expenses in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveyors of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Revenue from service concession arrangement

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue from construction contracts (see note 1(t)(i)). Operation or service revenue is recognised in the period in which services are provided by the Group. When the Group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

(iii) Revenue from operation services

Revenue from operation services are recognised when the related services are rendered.

(iv) Finance income

Finance income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Repairs and maintenance

Expenditures on major overhaul, repair and maintenance are charged to profit or loss as incurred.

(v) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Hong Kong dollars, which is both the Company's presentation currency and functional currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowings costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 Group or an entity related to the 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 parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Accounting judgments and estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Service concession arrangements

The Group entered into Build-Operate-Transfer ("BOT"), Transfer-Operate-Transfer ("TOT") and Build-Operate-Own ("BOO") arrangements in respect of its environmental water and related services projects.

The Group concluded that all the BOT and TOT arrangements and certain BOO arrangements are service concession arrangements under IFRIC 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In respect of BOT and TOT arrangements, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. Infrastructure for BOO arrangements is used in the service concession arrangements for its entire or substantial useful life.

(b) Sources of estimation uncertainty

Notes 10 and 23 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Construction contracts

As explained in policy notes 1(l) and 1(t)(i), revenue and profit recognition on an incompleted project is dependent on estimating the final outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the "Gross amounts due from customers for contract work" as disclosed in note 13 will not include profit which the Group may eventually realise from the work to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the receivables, customer credit-worthiness, and historical write-off experience. If the financial conditions of customers were to deteriorate, actual write-offs would be higher than estimated.

(iii) Other impairment losses

If circumstances indicate that the carrying values of investment in associate, fixed assets and intangible assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to estimate precisely fair values because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management reassess these estimates at each balance sheet date. Additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 Turnover

The principal activities of the Group are construction and operation of environmental water and related services projects (waste-water treatment plants, reusable water treatment plants and water source heat pump projects).

Turnover represents the revenue from construction services, revenue from operation services and finance income. The amount of each significant category of revenue recognised in turnover during the Relevant Periods is as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Revenue from construction services	178,903	648,084	449,779
Revenue from operation services	431,275	507,687	564,772
Finance income	244,354	235,256	276,189
	854,532	1,391,027	1,290,740

The aggregated revenues from construction services, operation services and finance income derived from local government authorities in the PRC for each of the years ended 31 December 2011, 2012 and 2013 amounted to $798,306,000, $1,217,958,000 and $1,229,908,000 respectively. Details of concentrations of credit risk arising from these customers are set out in note 23(a).

4 Other revenue and other loss

Other revenue

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Interest income	6,546	11,732	6,798
Government grant*	1,084	922	2,786
Others	2,508	9,439	7,706
	10,138	22,093	17,290

* Government grant of $1,084,000, $922,000 and $2,786,000 was granted during the years ended 31 December 2011, 2012 and 2013 respectively to subsidise certain environmental water and related services projects of the Group in the PRC, of which the entitlement was unconditional and under the discretion of the relevant authorities.

Other loss

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Net loss on sale of property, plant and equipment	349	12	84

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Year ended 31 December		
	2011	2012	2013
	$'000	$'000	$'000
(a) Finance costs			
Interest on bank advances wholly repayable within five years	26,085	60,479	53,494
Interest on other bank advances and other loans	77,810	20,741	6,488
Interest expense to fellow subsidiary	2,462	9,462	18,777
	106,357	90,682	78,759
(b) Staff costs			
Contributions to defined contribution retirement plan	5,654	6,971	7,593
Salaries, wages and other benefits	53,876	58,999	60,688
	59,530	65,970	68,281
(c) Other items			
Amortisation			
— interest in leasehold land held for own use under operating leases	105	322	330
— intangible assets	—	2,032	2,945
Depreciation	6,386	8,810	13,913
Net foreign exchange loss/(gain)	869	584	(1,217)
Operating lease charges: minimum lease payments			
— hire of premises	620	168	220

6 Income tax in the consolidated income statements

(a) Taxation in the consolidated income statements represents:

	Year ended 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Current tax - PRC Income Tax			
Provision for the year	24,497	45,216	57,342
Under-provision in respect of prior years	418	1,975	1,540
	24,915	47,191	58,882
Deferred tax			
Origination and reversal of temporary differences	47,313	50,958	52,671
	72,228	98,149	111,553

No provision for Hong Kong Profits Tax was made as the Group did not earn any income subject to Hong Kong Profits Tax during the Relevant Periods.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in this jurisdiction.

Taxation for the PRC operations is charged at the statutory rate of 25% of the assessable profits under taxation ruling in the PRC. During the Relevant Periods, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Profit before taxation	303,029	366,381	401,995
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	78,625	92,777	98,327
Tax effect of non-deductible expenses	711	1,559	6,495
Tax effect of non-taxable income	(3,397)	(4,771)	(1,570)
Tax effect of profits entitled to tax concession in the PRC	(12,763)	(7,118)	(8,440)
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	8,634	13,727	15,201
Under-provision in respect of prior years	418	1,975	1,540
Actual tax expense	72,228	98,149	111,553

7 Directors' remuneration

Directors' remuneration is as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Fees	Nil	Nil	Nil
Other emoluments	Nil	Nil	Nil

8 Fixed assets

	Land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles, electronic equipment and other fixed assets	Construction in progress	Sub-total	Interest in leasehold land held for own use under operating leases	Total fixed assets
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost:								
At 1 January 2011	—	—	3,956	32,501	30,908	67,365	—	67,365
Exchange adjustments	—	1,695	52	910	545	3,202	166	3,368
Additions	—	—	155	2,637	49,265	52,057	7,882	59,939
Disposals	—	—	(360)	(2,302)	—	(2,662)	—	(2,662)
Transferred from construction in progress	—	80,718	—	—	(80,718)	—	—	—
At 31 December 2011	—	82,413	3,803	33,746	—	119,962	8,048	128,010
Accumulated depreciation and amortisation:								
At 1 January 2011	—	—	2,788	14,167	—	16,955	—	16,955
Exchange adjustments	—	18	82	511	—	611	2	613
Charge for the year	—	844	368	5,174	—	6,386	105	6,491
Written back on disposal	—	—	(360)	(1,839)	—	(2,199)	—	(2,199)
At 31 December 2011	—	862	2,878	18,013	—	21,753	107	21,860
Net book value:								
At 31 December 2011	—	81,551	925	15,733	—	98,209	7,941	106,150

	Land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles, electronic equipment and other fixed assets	Construction in progress	Sub-total	Interest in leasehold land held for own use under operating leases	Total fixed assets
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost:								
At 1 January 2012	—	82,413	3,803	33,746	—	119,962	8,048	128,010
Exchange adjustments	707	148	49	461	1,005	2,370	89	2,459
Additions	—	—	655	1,263	86,356	88,274	—	88,274
Disposals	—	—	(40)	(428)	—	(468)	—	(468)
Reclassification	58,738	(65,558)	—	6,820	—	—	—	—
Adjustments	2,045	(390)	—	—	—	1,655	—	1,655
At 31 December 2012	61,490	16,613	4,467	41,862	87,361	211,793	8,137	219,930
Accumulated depreciation and amortisation:								
At 1 January 2012	—	862	2,878	18,013	—	21,753	107	21,860
Exchange adjustments	27	18	35	256	—	336	5	341
Charge for the year	2,361	762	373	5,314	—	8,810	322	9,132
Written back on disposal	—	—	(40)	(416)	—	(456)	—	(456)
At 31 December 2012	2,388	1,642	3,246	23,167	—	30,443	434	30,877
Net book value:								
At 31 December 2012	59,102	14,971	1,221	18,695	87,361	181,350	7,703	189,053

	Land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles, electronic equipment and other fixed assets	Construction in progress	Sub-total	Interest in leasehold land held for own use under operating leases	Total fixed assets
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost:								
At 1 January 2013	61,490	16,613	4,467	41,862	87,361	211,793	8,137	219,930
Exchange adjustments	2,325	954	130	1,264	1,215	5,888	231	6,119
Additions	—	—	377	4,535	7,378	12,290	—	12,290
Disposals	—	—	(167)	(933)	—	(1,100)	—	(1,100)
Adjustments	—	(21,854)	—	—	—	(21,854)	—	(21,854)
Transferred from construction in progress	40,554	55,400	—	—	(95,954)	—	—	—
At 31 December 2013	104,369	51,113	4,807	46,728	—	207,017	8,368	215,385
Accumulated depreciation and amortisation:								
At 1 January 2013	2,388	1,642	3,246	23,167	—	30,443	434	30,877
Exchange adjustments	128	87	97	737	—	1,049	17	1,066
Charge for the year	4,192	2,855	433	6,433	—	13,913	330	14,243
Written back on disposal	—	—	(167)	(849)	—	(1,016)	—	(1,016)
At 31 December 2013	6,708	4,584	3,609	29,488	—	44,389	781	45,170
Net book value:								
At 31 December 2013	97,661	46,529	1,198	17,240	—	162,628	7,587	170,215

The analysis of net book value of properties is as follows:

	As at 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
In the PRC (outside Hong Kong):			
— medium-term leases	7,941	66,805	105,248
Representing:			
Land and buildings	—	59,102	97,661
Interest in leasehold land held for own use under operating leases	7,941	7,703	7,587
	7,941	66,805	105,248

9 Intangible assets

	Environmental water and related services project operating rights
	$'000
Cost:	
At 1 January 2011	38,796
Exchange adjustments	1,588
Additions	24,414
At 31 December 2011	64,798
Accumulated amortisation:	
At 1 January 2011 and 31 December 2011	—
Net book value:	
At 31 December 2011	64,798

	Environmental water and related services project operating rights $'000
Cost:	
At 1 January 2012	64,798
Exchange adjustments	1,687
Additions	82,432
At 31 December 2012	148,917
Accumulated amortisation:	
At 1 January 2012	—
Exchange adjustments	23
Charge for the year	2,032
At 31 December 2012	2,055
Net book value:	
At 31 December 2012	146,862
Cost:	
At 1 January 2013	148,917
Exchange adjustments	4,227
At 31 December 2013	153,144
Accumulated amortisation:	
At 1 January 2013	2,055
Exchange adjustments	101
Charge for the year	2,945
At 31 December 2013	5,101
Net book value:	
At 31 December 2013	148,043

Amortisation of intangible assets is included in "Direct costs and operating expenses" in the consolidated income statements.

10 Goodwill

	$'000
At 1 January 2011, 2012 and 2013 and 31 December 2011, 2012 and 2013	9,538

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified in relation to the environmental water project construction and operation business.

The recoverable amount of the respective CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Discount rates of 10% to 12% have been used for the value-in-use calculations during the Relevant Periods. Management determined the budgets based on service agreements governing the relevant operations. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

No impairment is considered necessary at 31 December 2011, 2012 and 2013.

11 Interest in associate

	As at 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Share of net assets	—	—	—

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

			Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of establishment and operation**	**Group's effective interest**	**held by the Company**	**held by a subsidiary**	**Principal Activity**
Qingdao Veolia Water Operating Company Limited ("Qingdao Veolia")	Established	PRC	21%	—	21%	Operation of waste-water treatment plants (note)

Note: Qingdao EB-VW Waste Water Treatment Co., Ltd, ("Qingdao EB-VW"), a subsidiary of the Group, subcontracted to Qingdao Veolia the provision of the operation and maintenance services in respect of the waste-water treatment plants in Qingdao.

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	As at / year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Gross amounts of the associate's			
Current assets	6,506	10,713	16,172
Non-current assets	760	821	749
Current liabilities	(9,555)	(15,726)	(18,748)
Equity	(2,289)	(4,192)	(1,827)
Revenue	34,187	47,042	81,433
Profit/(loss) for the year (note)	1,059	(1,857)	2,559
Other comprehensive income	(104)	(46)	(194)
Total comprehensive income	955	(1,903)	2,365
Reconciled to the Group's interest in the associate			
Gross amounts of net liabilities of the associate	(2,289)	(4,192)	(1,827)
Group's effective interest	21%	21%	21%
Group's share of net assets of the associate (note)	—	—	—
Carrying amount in consolidated financial statements	—	—	—

Note: As at 31 December 2011, 2012 and 2013, the Group's share of accumulated loss of Qingdao Veolia exceeds the Group's interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued.

12 Debtors, other receivables, deposits and prepayments

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Debtors	79,388	132,703	143,238
Loan receivable	—	49,744	51,156
Other receivables, deposits and prepayments	1,684,478	1,775,138	1,948,929
Amounts due from intermediate holding company	202,014	130,194	170,520
Amounts due from fellow subsidiaries	5	9	116
	1,965,885	2,087,788	2,313,959
Less: Non-current portion			
— other receivables and deposits	(1,496,225)	(1,585,088)	(1,721,439)
— loan receivable	—	(49,744)	—
— amounts due from intermediate holding company	(202,014)	(130,194)	(170,327)
	(1,698,239)	(1,765,026)	(1,891,766)
Current portion	267,646	322,762	422,193

Included in "Debtors, other receivables, deposits and prepayments" are debtors with the following ageing analysis as of the balance sheet date:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Current	71,181	81,724	82,421
Within 1 month past due	2,709	22,818	9,755
More than 1 month but within 3 months past due	5,095	12,185	11,711
More than 3 months but within 6 months past due	403	6,819	7,678
More than 6 months but within 12 months past due	—	9,157	9,386
More than 12 months past due	—	—	22,287
Amounts past due	8,207	50,979	60,817
	79,388	132,703	143,238

Debtors are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

Included in "Debtors, other receivables, deposits and prepayments" of the Group are debtors of $79,388,000, $132,703,000 and $143,238,000 of which $10,261,000, $29,599,000 and $53,153,000 are due from a non-controlling shareholder and $9,932,000, $10,551,000 and $10,979,000 are due from a related company respectively as at 31 December 2011, 2012 and 2013. Debtors represent revenue from operation services. There was no recent history of default in respect of the Group's debtors. Since most of the debtors are local government authorities in the PRC and based on past experience, management believes that no impairment allowance is necessary in respect of the past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. No impairment loss was recognised by the Group at 31 December 2011, 2012 and 2013.

"Debtors, other receivables, deposits and prepayments" include balances totalling $1,638,783,000, $1,742,563,000 and $1,901,476,000 which bear interest at rates ranging from 5.94% to 7.83% per annum and represent the considerations paid for the acquisition of waste-water treatment plants under TOT arrangements, among which $181,606,000, $194,094,000 and $208,120,000 are due from a non-controlling shareholder and $476,468,000, $491,517,000 and $513,433,000 are due from a related company respectively as at 31 December 2011, 2012 and 2013. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the TOT arrangements. No impairment loss was recognised by the Group at 31 December 2011, 2012 and 2013.

The amounts due from intermediate holding company are unsecured, interest free and not expected to be settled within one year, except for an amount of $193,000 as at 31 December 2013 which is recoverable on demand.

The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand.

The loan receivable is unsecured, interest-bearing at 11% per annum, due from an unrelated party and due for repayment in 2014.

All of the current portion of the above balances are expected to be recovered or recognised as expense within one year.

13 Gross amounts due from customers for contract work

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Contract costs incurred plus recognised profits less anticipated losses	2,358,173	2,956,479	3,498,168
Less: Progress billings	(577,836)	(781,480)	(1,050,753)
Net contract work	1,780,337	2,174,999	2,447,415
Representing:			
Gross amounts due from customers for contract work			
— Non-current	1,610,289	1,923,673	2,149,181
— Current	170,048	251,326	298,234
	1,780,337	2,174,999	2,447,415

Included in "Gross amounts due from customers for contract work" are amount due from a non-controlling shareholder of $246,876,000, $227,471,000 and $212,609,000 and amount due from a related company of $229,651,000, $213,243,000 and $201,168,000 respectively as at 31 December 2011, 2012 and 2013.

"Gross amounts due from customers for contract work" represent revenue from construction under BOT and BT ("Build-Transfer") arrangements or upgrade services under TOT arrangements and bear interest at rates ranging from 5.94% to 7.83% per annum as at 31 December 2011, 2012 and 2013. Among the total of $1,780,337,000, $2,174,999,000 and $2,447,415,000 as at 31 December 2011, 2012 and 2013, $1,585,713,000, $1,473,735,000 and $1,915,967,000 relates to BOT and TOT arrangements with operation commenced respectively. The amounts for BOT and TOT arrangements are not yet due for payment and will be settled by revenue to be generated during the operating periods of the arrangements. The amount for BT arrangements will be settled according to respective repayment schedules as stated in the agreements.

14 Inventories

Inventories in the consolidated balance sheets comprise:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Raw materials and operating supplies	8,476	8,174	7,162

15 Pledged bank deposits

The amounts are pledged to secure certain bank loans of the Group.

16 Cash and cash equivalents

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Deposits with banks	308,976	—	—
Cash at bank and in hand	139,459	170,552	246,945
	448,435	170,552	246,945

Included in "Cash and cash equivalents" at the balance sheet date are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December		
	2011	2012	2013
	US$'000	US$'000	US$'000
United States Dollars	461	1,271	1,784

Included in "Cash and cash equivalents" are the following deposits placed with a related party bank:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Deposits with related party bank	3,183	824	7,289

17 Bank loans

The bank loans were repayable as follows:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Within 1 year or on demand	300,120	291,898	277,771
After 1 year but within 2 years	251,535	272,591	231,059
After 2 years but within 5 years	590,923	451,843	339,752
After 5 years	117,782	48,376	15,347
	960,240	772,810	586,158
	1,260,360	1,064,708	863,929

The bank loans were secured as follows:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Bank loans			
— Secured	953,967	812,382	660,968
— unsecured	306,393	252,326	202,961
	1,260,360	1,064,708	863,929

Certain banking facilities of the Group are secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements, bank deposits and fixed assets of the Group. Such banking facilities of $982,217,000, $993,834,000 and $1,226,578,000 as at 31 December 2011, 2012 and 2013 were utilised to the extent of $953,967,000, $812,382,000 and $660,968,000 respectively. Among the secured banking facilities, $34,821,000 was guaranteed by the fellow subsidiary and was fully utilised at 31 December 2012, whereas $403,625,000, $316,061,000 and $771,944,000 are guaranteed by the intermediate holding company and were utilised to the extent of $403,625,000, $316,061,000 and $229,115,000 at 31 December 2011, 2012 and 2013 respectively.

At 31 December 2011, 2012 and 2013, the unsecured banking facilities, amounting to $306,393,000, $252,326,000 and $202,961,000 respectively, were fully utilised. Among the unsecured banking facilities of the Group, $18,450,000 was guaranteed by the intermediate holding company and was fully utilised at 31 December 2011. All of the non-current interest-bearing borrowings are carried at amortised costs. None of the non-current interest-bearing borrowings is expected to be settled within one year.

Banking facilities of $149,232,000 and $619,563,000 are subject to the fulfilment of covenants relating to certain of the Group's financial ratios as at 31 December 2012 and 2013 respectively. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. At 31 December 2012, such banking facilities were not utilised. At 31 December 2013, such facilities were utilised to the extent of $76,734,000. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 23(b). As at 31 December 2013, none of the covenants relating to drawn down facilities had been breached.

Included in "Bank loans" are the following loans from a related party bank:

	As at 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Loans from a related party bank	153,873	131,697	110,881

The loans from a related party bank as at 31 December 2011, 2012 and 2013 are unsecured, bear interest at rates announced by the People's Bank of China and will be settled by instalment until 2018.

18 Creditors, other payables and accrued expenses

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Trade creditors			
— third parties	94,918	198,056	201,237
— fellow subsidiaries	33,808	76,185	179,765
	128,726	274,241	381,002
Other payables and accrued expenses	55,543	66,262	74,270
Amounts due to intermediate holding company	44,547	30,165	6,548
Amounts due to immediate holding company	1,265,467	1,413,386	1,580,841
Amounts due to fellow subsidiaries	67,434	106,008	164,727
	1,561,717	1,890,062	2,207,388
Less: Non-current portion			
— amounts due to intermediate holding company	(43,664)	(307)	(6,548)
— amounts due to immediate holding company	(1,265,467)	(1,413,386)	(1,580,841)
	(1,309,131)	(1,413,693)	(1,587,389)
Current portion	252,586	476,369	619,999

Included in "Trade creditors" of the Group is an amount of $4,610,000, $14,161,000 and $25,355,000 which is payable to an associate as at 31 December 2011, 2012 and 2013 respectively. The balance is due within one month and represents service fee for operation of waste-water treatment plants.

Apart from the above, creditors totalling $120,018,000, $255,678,000 and $349,025,000 represent construction payables for the Group's BT, BOT and certain BOO arrangements as at 31 December 2011, 2012 and 2013, among which $11,642,000, $1,244,000 and $1,279,000 is due to non-controlling shareholders respectively. The construction payables are not yet due for payment. Included in "Other payables and accrued expenses" of the Group as at 31 December 2012 and 2013 is an amount of $6,218,000 and $6,395,000 which is payable to a non-controlling shareholder. The amount due to non-controlling shareholder is unsecured, interest free and expected to be settled within one year.

The amounts due to immediate holding company and intermediate holding company are unsecured, interest free and have no fixed terms of repayment. However, the immediate holding company and intermediate holding company have agreed not to seek repayment of the amounts within twelve months from the balance sheet date, except for amounts due to intermediate holding company of $883,000 and $29,858,000 which are repayable within one year as at 31 December 2011 and 2012 respectively.

The amounts due to fellow subsidiaries (including trade payables to fellow subsidiaries) are unsecured, interest fee and repayable on demand, except for amount of $49,014,000, $145,076,000 and $151,583,000 which bears interest at 1.2 times of the rates announced by the People's Bank of China as at 31 December 2011, 2012 and 2013 respectively. Trade payables to fellow subsidiaries and amounts due to fellow subsidiaries which are not trade nature are repayable in accordance with contract terms and on demand respectively.

19 Other loans

The loans as at 31 December 2011 were unsecured, interest-bearing at rates announced by the People's Bank of China and repayable in 2023. The loans were fully repaid during the year ended 31 December 2012.

20 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	As at 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Provision for PRC income tax for the year	24,497	45,216	57,342
Provisional tax paid	(18,149)	(29,659)	(41,708)
	6,348	15,557	15,634
Balance of PRC income tax provision relating to prior years	—	—	2,896
	6,348	15,557	18,530
Represented by:			
Tax recoverable	—	(2,349)	(3,741)
Tax payable	6,348	17,906	22,271
	6,348	15,557	18,530

(b) *Deferred tax liabilities recognised:*

The components of deferred tax liabilities recognised in the consolidated balance sheets and the movements during the years are as follows:

	Temporary differences on assets recognised under IFRIC 12 $'000	Undistributed profits of subsidiaries $'000	Total $'000
At 1 January 2011	112,296	25,475	137,771
Exchange adjustments	5,195	1,176	6,371
Charged to profit or loss	38,679	8,634	47,313
At 31 December 2011 and 1 January 2012	156,170	35,285	191,455
Exchange adjustments	2,161	549	2,710
Charged to profit or loss	37,231	13,727	50,958
At 31 December 2012 and 1 January 2013	195,562	49,561	245,123
Exchange adjustments	6,085	1,624	7,709
Charged to profit or loss	37,470	15,201	52,671
At 31 December 2013	239,117	66,386	305,503

21 Equity compensation benefits

Pursuant to the share option scheme of the Company's intermediate holding company, China Everbright International Limited, certain directors of the Company were eligible to participate in the scheme to acquire shares of the intermediate holding company. The share option scheme was expired on 26 May 2013.

No employee benefit cost or obligation is recognised in the Group's consolidated financial statements in respect of the share options as they were granted in respect of services provided to other group companies.

22 Capital and reserves

(a) *Share capital*

Authorised and issued share capital

The Company was incorporated on 25 March 2003 with an authorised share capital of US$50,000 (equivalent to approximately $388,000) divided into 50,000 shares of US$1 each. 1 share of US$1 was allotted and issued as fully paid at par and the share capital of the Company amounted to $8 as at 31 December 2011, 2012 and 2013.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(ii) Reserve fund

Statutory reserve - wholly foreign-owned enterprises

Subsidiaries of the Group in the PRC, which are wholly foreign-owned enterprises, follow the accounting principles and relevant financial regulations of the PRC applicable to wholly foreign-owned enterprises ("PRC GAAP — WFOE"), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises (企业会计制度 [财会 (2000) 25 号]), the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP - WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to equity owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(c) Distributability of reserves

At 31 December 2011, 2012 and 2013, the Company did not have reserves for distribution.

(d) Capital management

The Group's primary objectives when managing capital are to maintain a strong credit rating and healthy capital ratios in order to support its business. As the Group is part of a larger group, the Group's sources of additional capital and polices for distribution of excess capital may also be affected by the capital management objectives of the larger group.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the larger group to which the Group belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group or the larger group.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, was 68%, 67% and 63% as at 31 December 2011, 2012 and 2013 respectively.

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 17 to the financial statements, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Management has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis. Debts are usually due within 30 days from the date of billing.

Debtors of the Group represent receivables in respect of revenue from operation services which are settled on a monthly basis. In addition, the Group has gross amounts due from customers for contract work and other receivables in respect of the BT, BOT and TOT arrangements.

At 31 December 2011, 2012 and 2013, "Debtors, other receivables, deposits and prepayments" of the Group amounted to $1,965,885,000, $2,087,788,000 and $2,313,959,000 and "Gross amounts due from customers for contract work" amounted to $1,780,337,000, $2,174,999,000 and $2,447,415,000 respectively, of which $1,182,015,000, $484,940,000 and $1,497,132,000 were due from the largest customer and $3,104,783,000, $2,490,219,000 and $3,715,927,000 were due from five largest customers in aggregate of the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets. Since the parties to BT, BOT and TOT arrangements are local government authorities in the PRC, the Group considers the credit risk is low.

The Group provided guarantees to a fellow subsidiary which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantees at the balance sheet date is disclosed in note 27. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from "Debtors, other receivables, deposits and prepayments" as well as "Gross amounts due from customers for contract work" are set out in notes 12 and 13 respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flow					
	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
At 31 December 2011						
Bank loans	385,725	317,193	688,696	129,564	1,521,178	1,260,360
Other loans	3,902	3,902	11,707	82,665	102,176	55,350
Creditors, other payables and accrued expenses	252,586	1,309,131	—	—	1,561,717	1,561,717
	642,213	1,630,226	700,403	212,229	3,185,071	2,877,427
At 31 December 2012						
Bank loans	360,910	322,212	509,578	52,275	1,244,975	1,064,708
Creditors, other payables and accrued expenses	476,369	1,413,693	—	—	1,890,062	1,890,062
	837,279	1,735,905	509,578	52,275	3,135,037	2,954,770

	Total contractual undiscounted cash flow					
	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
Financial guarantee issued:						
Maximum amount guaranteed (note 27)	317,118	—	—	—	317,118	—
At 31 December 2013						
Bank loans	334,071	269,065	377,818	16,302	997,256	863,929
Creditors, other payables and accrued expenses	619,999	1,587,389	—	—	2,207,388	2,207,388
	954,070	1,856,454	377,818	16,302	3,204,644	3,071,317
Financial guarantee issued:						
Maximum amount guaranteed (note 27)	196,951	—	—	—	196,951	—

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, bank deposits, loan receivable, bank loans and other loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less loan receivable, bank deposits and cash and cash equivalents) at the balance sheet date.

	As at 31 December					
	2011		2012		2013	
	Effective interest rate	$'000	Effective interest rate	$'000	Effective interest rate	$'000
Net fixed rate deposits/ receivable:						
Loan receivable	—	—	11%	(49,744)	11%	(51,156)
Cash and cash equivalents	0.95%-6.30%	(308,976)	—	—	—	—
		(308,976)		(49,744)		(51,156)
Net variable rate borrowings:						
Bank loans	5.60%-7.27%	1,260,360	5.90%-7.40%	1,064,708	5.90%-7.21%	863,929
Other loans	7.05%	55,350	—	—	—	—
Amount due to a fellow subsidiary	7.98%	49,014	7.38%	145,076	7.38%	151,583
Less: Pledged bank deposits	0.5%-1.31%	(106,333)	0.39%-1.27%	(46,289)	0.35%-1.27%	(43,468)
Cash and cash equivalents	0.01%-0.50%	(139,459)	0.01%-0.39%	(170,552)	0.01%-1.27%	(246,945)
		1,118,932		992,943		725,099
Total net borrowings		809,956		943,199		673,943

(ii) Sensitivity analysis

At 31 December 2011, 2012 and 2013, it is estimated that a general increase/decrease of one percent in interest rates, with all other variables held constant, would decrease/increase the Group's profit before taxation by approximately $8,100,000, $9,432,000 and $6,739,000 respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit before taxation that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit before taxation is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis throughout the Relevant Periods.

(d) Currency risk

Majority of the Group's transactions are denominated in the functional currency of the entity to which they relate. Presently, there is no hedging policy with respect of the foreign exchange exposure. The Group's transactional currencies are Chinese Renminbi and Hong Kong dollars as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in Chinese Renminbi and Hong Kong dollars, the Group's transactional foreign exchange exposure was insignificant.

(e) Fair value measurement

The fair values of cash and cash equivalents, debtors, bank deposits, current portion of other receivables, deposits and prepayments and creditors, other payables and accrued expenses are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of non-current portion of other receivables and deposits, gross amounts due from customers for contract work, bank loans and other loans approximate their fair values.

As set out in notes 12 and 18, the Group had non-current amounts due from/to group companies which are interest-free, it is not considered practicable to estimate the fair values of the amounts because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive.

24 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) The Group entered into the following related party transactions with a related party bank:

	Year ended 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Interest expense	11,284	9,977	7,968

(b) The Group entered into the following related party transactions with an associate:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Service expense for operation of waste-water treatment plants	44,783	53,303	57,549

(c) The Group entered into the following related party transactions with a non-controlling shareholder of the Group:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Revenue from operation services	72,103	70,343	89,300
Finance income	27,902	27,800	27,710

(d) The Group entered into the following related party transactions with a related company and subsidiaries of non-controlling shareholders of the Group:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Revenue from operation services	29,124	33,566	47,900
Revenue from construction services	44,449	—	—
Finance income	75,204	52,837	53,468
Technical service expense	1,331	1,326	1,325

(e) The Group entered into the following related party transactions with fellow subsidiaries:

	Year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
Construction management and consultancy fee expense	17,581	112,923	117,356
Operating service fee expense	—	—	7,981

(f) The Group paid key management personnel compensation as follows:

	Year ended 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Salaries and other short-term employee benefits	3,506	3,843	—
Retirement scheme contributions	138	239	—
	3,644	4,082	—

Total remuneration is included in "Staff costs" (see note 5(b)).

25 Commitments

(a) The Group had outstanding purchase commitments in connection with the Group's construction contracts not provided for in the financial statements of $148,260,000, $20,935,000 and $33,553,000 at 31 December 2011, 2012 and 2013 respectively.

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2011	2012	2013
	$'000	$'000	$'000
Within 1 year	62	—	111

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of these leases includes contingent rentals.

26 Pledge of assets

Details of assets pledged are set out in note 17. The aggregate net book value of assets pledged amounted to $2,379,306,000, $2,369,261,000 and $2,962,400,000 as at 31 December 2011, 2012 and 2013 respectively.

27 Contingent liabilities

Financial guarantees issued

As at the 31 December 2012 and 2013, the Group has issued financial guarantees to a fellow subsidiary in relation to banking facilities granted to the fellow subsidiary of $534,748,000 and $447,615,000 respectively. The directors do not consider it is probable that a claim will be made against the Company under the guarantees. The maximum liability of the Group under the guarantees issued is the facility drawn down by the fellow subsidiary of $317,118,000 and $196,951,000 as at 31 December 2012 and 2013 respectively.

Due to the related party nature of the instruments, the directors considered it is not practicable to estimate the fair values of the financial guarantees and therefore they have not been recognised in the consolidated financial statements.

28 Immediate and ultimate controlling party

At 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Group to be China Everbright Environmental Protection Holdings Limited and China Everbright Holdings Company Limited respectively, both of which are incorporated in Hong Kong. Neither of them produces financial statements available for public use. The intermediate holding company, China Everbright International Limited, produces financial statements available for public use.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the Relevant Periods and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities*	*1 January 2014*
Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*	*1 January 2014*
IFRS 9, *Financial instruments*	*Not yet established by the IASB*

The Group is in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application but is not yet in a position to state whether these amendments and new standard would have a significant impact on the Group's results of operations and financial position.

30 Information of the subsidiaries

The Company has direct and indirect interests in the following subsidiaries. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by a subsidiary	Principal Activity
EB-VW HK Holding Company Limited ("EB-VW")	Hong Kong	10,710,680 shares of $1 each	60%	60%	—	Investment holding
Everbright Reusable Water Jiangyin Ltd*	PRC	USD5,000,000	100%	—	100%	Design, construction, operation and maintenance of reusable water treatment plant
Everbright Water (Boxing) Limited* (note (a))	PRC	$55,000,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Dezhou) Holdings Limited	Hong Kong	100 shares of $1 each	100%	100%	—	Investment holding
Everbright Water (Dezhou) Limited* (note (a))	PRC	USD12,280,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant
Everbright Water (Jiangyin) Limited ("EB Water Jiangyin")# (notes (a) and (b))	PRC	RMB180,000,000	70%	—	70%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Ji'nan) Holdings Limited	Hong Kong	100 shares of $1 each	100%	100%	—	Investment holding
Everbright Water (Ji'nan) Limited* (note (a))	PRC	USD35,430,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Jinan Licheng) Limited* (note (a))	PRC	RMB148,530,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants and reusable water treatment plant

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	held by the Company	held by a subsidiary	Principal Activity
Everbright Water (Lingxian) Limited* (note (a))	PRC	USD8,381,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Wuxi) Holdings Limited	Hong Kong	100 shares of $1 each	100%	100%	—	Investment holding
Everbright Water (Xinyi) Limited*	PRC	$174,590,000	100%	—	100%	Design and construction of waste-water treatment plant and surface water treatment plant
Everbright Water (Xuzhou) Holdings Limited	Hong Kong	100 shares of $1 each	100%	100%	—	Investment holding
Everbright Water (Zhangqiu) Limited* (note (a))	PRC	RMB20,500,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant
Everbright Water (Zibo) Holdings Limited	Hong Kong	100 shares of $1 each	100%	100%	—	Investment holding
Everbright Water (Zibo) Limited* (note (a))	PRC	USD31,158,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants and reusable water treatment plant
Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd.* (note (a))	PRC	$35,000,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant
Qingdao EB-VW# (note (a))	PRC	USD15,257,000	Note(c)	—	Note(c)	Construction, operation and maintenance of waste-water treatment plants
Zibo Everbright Water Energy Development Company Limited* (note (b))	PRC	RMB51,350,000	100%	—	100%	Design, construction, operation and maintenance of waste-water source heat pump plants

* Registered under the laws of the PRC as foreign investment enterprise.

\# Registered under the laws of the PRC as sino-foreign co-operation joint ventures.

The following table lists out the information relating to material subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	EB Water (Jiangyin)		
	As at / year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
NCI percentage	30%	30%	30%
Current assets	537,371	134,030	159,832
Non-current assets	666,625	713,638	672,079
Current liabilities	(121,897)	(105,737)	(119,245)
Non-current liabilities	(374,512)	(295,496)	(213,393)
Net assets	707,587	446,435	499,273
Carrying amount of NCI	211,405	133,810	149,365
Revenue	172,340	124,697	130,210
Profit for the year	61,087	42,670	39,600
Total comprehensive income	86,550	34,952	52,838
Profit allocated to NCI	17,509	13,618	11,880
Cash inflows from operating activities	685,632	96,152	85,395
Cash outflows from investing activities	(21,215)	(50,596)	(1,162)
Cash outflows from financing activities	(434,164)	(360,864)	(83,615)

	EB-VW and Qingdao EB-VW As at / year ended 31 December		
	2011	**2012**	**2013**
	$'000	**$'000**	**$'000**
NCI percentage	Note (c)	Note (c)	Note (c)
Current assets	62,946	73,657	108,245
Non-current assets	398,629	391,025	387,391
Current liabilities	(87,100)	(95,335)	(107,250)
Non-current liabilities	(89,613)	(60,960)	(39,860)
Net assets	284,862	308,387	348,526
Carrying amount of NCI	165,983	175,805	193,143
Revenue	100,005	98,142	117,010
Profit for the year	25,665	19,846	30,190
Total comprehensive income	36,728	23,525	40,139
Profit allocated to NCI	10,266	7,938	12,076
Cash inflows from operating activities	54,142	15,054	45,772
Cash outflows from investing activities	(60)	(136)	(80)
Cash outflows from financing activities	(54,453)	(14,971)	(45,993)

Notes:

(a) The subsidiaries of the Group entered into service concession arrangements with the local government authorities (the "grantors"). Pursuant to the service concession arrangements, the Group has to design, construct and/or upgrade, operate and maintain waste-water treatment plants in the PRC for a period of 25 to 30 years. The Group has the obligation to maintain the waste-water treatment plants in good condition. The grantors guarantee the Group will receive minimum annual payments in connection with the arrangements. Upon expiry of the concession periods, the waste-water treatment plants and the related facilities will be transferred to the local government authorities.

The service concession arrangements do not contain renewal options. The standard rights of the grantors to terminate the agreements include failure of the Group to construct, upgrade or operate the waste-water treatment plants and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the agreements include failure to receive payments for waste-water treatment service from the grantors and in the event of a material breach of the terms of the agreements.

Revenue relates to the construction services provided in constructing or upgrading the waste-water treatment plants is recognised as "Gross amounts due from customers for contract work" in the financial statements.

(b) The subsidiaries of the Group entered into service concession arrangements with the grantors. Pursuant to the service concession arrangements, the Group was granted rights to construct, operate and maintain environmental water and related services projects in the PRC for a period of 30 years. The service fees are based on the extent of services rendered and are subject to the approvals from the relevant local government authorities. During the operating period, the Group will be responsible to maintain the projects in good condition.

The service concession arrangements do not contain renewal options. Both the grantor and the Group have the rights to terminate the agreements in the event of a material breach of the terms of the agreements.

Operating rights of the projects are recognised as intangible assets.

(c) EB-VW, an 60% owned subsidiary of the Company and the foreign joint venture partner of Qingdao EB-VW, is committed to contribute 60% of Qingdao EB-VW's registered capital. The remaining 40% registered capital is contributed by the PRC joint venture partner. EB-VW is fully entitled to the net profit of Qingdao EB-VW for the first 14 years of the joint venture period. From the 15th year of the joint venture period onwards, the net profit of Qingdao EB-VW is to be shared by EB-VW and the PRC joint venture partner on a 98:2 basis.

The financial information of the Target Group as included in Appendix I to this Circular has been reproduced from the audited consolidated financial statements of China Everbright Water Investments Limited and its subsidiaries for the six months ended 30 June 2014, with the exception that the pages have been renumbered.

Independent auditor's report to the board of directors of
China Everbright Water Investments Limited
(Incorporated in the British Virgin Islands with limited liability)

We have audited the consolidated financial statements of China Everbright Water Investments Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 3 to 67, which comprise the consolidated balance sheet as at 30 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2014 and of the Group's profits and cash flows for the six months then ended in accordance with International Financial Reporting Standards.

Other matter

Without qualifying our opinion, we draw to your attention that the comparatives of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six months ended 30 June 2013 and the related notes disclosed in the consolidated financial statements have not been audited and we therefore do not express audit opinion on them.

Use of report

This report is intended solely for the information of, and use by, the board of directors of the Company and is not intended for any other purpose. This report should not be disclosed, referred to or quoted in whole or in part without our prior written consent.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 October 2014

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2014**	**2013**
		$'000	**$'000**
			(unaudited)
Turnover	3	505,837	574,407
Direct costs and operating expenses		(196,694)	(317,564)
		309,143	256,843
Other revenue	4	3,911	5,129
Other loss	4	(148)	(51)
Administrative expenses		(30,922)	(33,399)
Profit from operations		281,984	228,522
Finance costs	5(a)	(34,738)	(38,323)
Profit before taxation	5	247,246	190,199
Income tax	6(a)	(69,056)	(56,488)
Profit for the period		178,190	133,711
Attributable to:			
Equity shareholders of the Company		165,999	125,644
Non-controlling interests		12,191	8,067
Profit for the period		178,190	133,711

The notes on pages 11 to 67 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Profit for the period	178,190	133,711
Other comprehensive income for the period:		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation of financial statements of subsidiaries, net of nil tax	(82,326)	39,979
Total comprehensive income for the period	95,864	173,690
Attributable to:		
Equity shareholders of the Company	92,092	161,178
Non-controlling interests	3,772	12,512
Total comprehensive income for the period	95,864	173,690

The notes on pages 11 to 67 form part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2014

(Expressed in Hong Kong dollars)

	Note	At 30 June 2014 $'000	At 31 December 2013 $'000
Non-current assets			
Fixed assets	8		
— Property, plant and equipment		153,549	162,628
— Interest in leasehold land held for own use under operating leases		7,231	7,587
		160,780	170,215
Intangible assets	9	141,751	148,043
Goodwill	10	9,538	9,538
Interest in associate	11	—	—
Other receivables and deposits	12	1,712,199	1,891,766
Gross amounts due from customers for contract work	13	2,087,120	2,149,181
		4,111,388	4,368,743
Current assets			
Inventories	14	7,601	7,162
Debtors, other receivables, deposits and prepayments	12	408,134	422,193
Gross amounts due from customers for contract work	13	262,831	298,234
Tax recoverable	19(a)	—	3,741
Pledged bank deposits	15	53,008	43,468
Cash and cash equivalents	16	316,013	246,945
		1,047,587	1,021,743
Current liabilities			
Bank loans	17		
— Secured		229,350	237,870
— Unsecured		38,891	39,901
		268,241	277,771
Creditors, other payables and accrued expenses	18	317,877	619,999
Current taxation	19(a)	21,356	22,271
		607,474	920,041

	Note	At 30 June 2014 $'000	At 31 December 2013 $'000
Net current assets		440,113	101,702
Total assets less current liabilities		4,551,501	4,470,445
Non-current liabilities			
Bank loans	17		
— Secured		390,095	423,098
— Unsecured		169,399	163,060
		559,494	586,158
Other payables	18	363,138	1,587,389
Deferred tax liabilities	19(b)	331,560	305,503
		1,254,192	2,479,050
NET ASSETS		3,297,309	1,991,395
CAPITAL AND RESERVES			
Share capital	21(a)	—*	—*
Reserves		2,951,029	1,648,887
Total equity attributable to equity shareholders of the Company		2,951,029	1,648,887
Non-controlling interests		346,280	342,508
TOTAL EQUITY		3,297,309	1,991,395

* The balances represent amounts less than $1,000.

Approved and authorised for issue by the board of directors on 31 October 2014

Chen Xiaoping)
Wang Tianyi) Directors

The notes on pages 11 to 67 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company							
	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Reserve fund $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total Equity $'000
Balance at 1 January 2013		—*	—	270,275	52,366	985,549	1,308,190	309,615	1,617,805
Changes in equity for the six months ended 30 June 2013 (unaudited):									
Profit for the period		—	—	—	—	125,644	125,644	8,067	133,711
Other comprehensive income		—	—	35,534	—	—	35,534	4,445	39,979
Total comprehensive income		—	—	35,534	—	125,644	161,178	12,512	173,690
Balance at 30 June 2013 (unaudited)		—*	—	305,809	52,366	1,111,193	1,469,368	322,127	1,791,495
Balance at 1 January 2014		—*	—	344,486	71,979	1,232,422	1,648,887	342,508	1,991,395
Changes in equity for the six months ended 30 June 2014:									
Profit for the period		—	—	—	—	165,999	165,999	12,191	178,190
Other comprehensive income		—	—	(73,907)	—	—	(73,907)	(8,419)	(82,326)
Total comprehensive income		—	—	(73,907)	—	165,999	92,092	3,772	95,864
Issue of ordinary shares	21(a)(ii)	—*	1,210,050	—	—	—	1,210,050	—	1,210,050
Balance at 30 June 2014		—*	1,210,050	270,579	71,979	1,398,421	2,951,029	346,280	3,297,309

* The balances represent amounts less than $1,000.

The notes on pages 11 to 67 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2014 $'000	2013 $'000 (unaudited)
Operating activities			
Profit before taxation		247,246	190,199
Adjustments for:			
Depreciation	5(c)	6,522	7,363
Amortisation of intangible assets	5(c)	2,565	1,245
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	165	164
Finance costs	5(a)	34,738	38,323
Interest income	4	(906)	(3,328)
Net loss on sale of property, plant and equipment	4	148	51
Effect of foreign exchange rates changes		3,984	(2,639)
Changes in working capital:			
(Increase)/decrease in inventories		(620)	914
Increase in debtors, other receivables, deposits and prepayments		(80,869)	(54,189)
Decrease/(increase) in gross amounts due from customers for contract work		35,461	(132,967)
Decrease in creditors, other payables and accrued expenses		(241,555)	(5,162)
Cash generated from operations		6,879	39,974
Interest received		906	3,328
People's Republic of China ("PRC") income tax paid		(32,127)	(31,387)
Net cash (used in)/generated from operating activities		(24,342)	11,915
Investing activities			
Payment for purchase of property, plant and equipment		(1,714)	(3,898)
Proceeds from sale of property, plant and equipment		47	—
Decrease in amounts due from intermediate holding company		—	2,050
Repayment from loan receivables		49,860	—
Net cash generated from/(used in) investing activities		48,193	(1,848)

	Note	Six months ended 30 June 2014 $'000	2013 $'000 (unaudited)
Financing activities			
Proceeds from new bank loans		110,225	7,936
Repayment of bank loans		(124,661)	(160,312)
Increase in amounts due to fellow subsidiaries		134,465	104,639
(Decrease)/increase in amounts due to immediate holding company		(200,464)	128,919
Increase in amounts due to intermediate holding companies		177,266	733
(Increase)/decrease in pledged bank deposits		(10,641)	19,379
Interest paid		(34,738)	(38,323)
Net cash generated from financing activities		51,452	62,971
Net increase in cash and cash equivalents		75,303	73,038
Cash and cash equivalents at 1 January		246,945	170,552
Effect of foreign exchange rates changes		(6,235)	2,410
Cash and cash equivalents at 30 June	16	316,013	246,000

Major non-cash transactions

(a) During the six months ended 30 June 2014, amounts due from an intermediate holdings company of $170,327,000 were set-off against the amounts due to immediate holding company and intermediate holding company under the instructions from the intermediate holding company.

(b) During the six months ended 30 June 2014, 1 new ordinary share was issued by the Company for setting-off the amounts due to immediate holding company of $1,210,050,000 (see note 21(a)(ii)).

The notes on pages 11 to 67 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These consolidated financial statements relating to the Group including the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group, for the six months ended 30 June 2014, and the consolidated balance sheet of the Group as at 30 June 2014, together with the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of presentation

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associate.

The comparatives of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six months ended 30 June 2013 and the related notes disclosed in the consolidated financial statements were derived from the Group's management accounts and have not been audited.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Basis of measurement

The consolidated financial statements are presented in Hong Kong dollars, rounded to the nearest thousand. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

(d) Changes in accounting policies

The ISAB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group:

— Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

— Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

— Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

— Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*

— IFRIC 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's financial statements as the Company does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating units ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments have no impact on the Group's financial statements as the Group has no impaired non-financial assets.

Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's financial statements as the Group has no financial derivatives.

IFRIC 21, *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's financial statements as the guidance is consistent with the Group's existing accounting policies.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(f) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see notes 1(g) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the period are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(g) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, from 20 to 50 years after the date of completion.

— Plant and machinery	10 to 25 years
Leasehold improvements	10 years or over the remaining term of the lease, if shorter
— Furniture and fixtures	5 to 10 years
— Motor vehicles, electronic equipment and other fixed assets	3 to 12 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Intangible assets represent operating rights of environmental water and related services projects. The intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(k)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives of 30 years. Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely that the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(k) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investment in associate accounted for under the equity method in the consolidated financial statements (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of debtors included within debtors, other receivables, deposits and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(l) Inventories

Inventories, mainly comprise spare parts and consumables used in the repairs and maintenance, are carried at cost less provision for obsolescence (if any). Cost is calculated using the weighted average cost formula. When inventories are consumed, the carrying amount of those inventories is recognised as an expense in profit or loss.

(m) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(u)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Debtors, other receivables, deposits and prepayments".

(n) Debtors, other receivables, deposits and prepayments

Debtors, other receivables, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Creditors, other payables and accrued expenses

Creditors, other payables and accrued expenses are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), creditors, other payables and accrued expenses are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(s) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within creditors, other payables and accrued expenses. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors, other payables and accrued expenses in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveyors of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Revenue from service concession arrangement

Revenue relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue from construction contracts (see note 1(u)(i)). Operation or service revenue is recognised in the period in which services are provided by the Group. When the Group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

(iii) Revenue from operation services

Revenue from operation services are recognised when the related services are rendered.

(iv) Finance income

Finance income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Repairs and maintenance

Expenditures on major overhaul, repair and maintenance are charged to profit or loss as incurred.

(w) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Hong Kong dollars, which is both the Company's presentation currency and functional currency.

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowings costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 Group or an entity related to the 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 parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Accounting judgments and estimates

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Service concession arrangements

The Group entered into Build-Operate-Transfer ("BOT"), Transfer-Operate-Transfer ("TOT") and Build-Operate-Own ("BOO") arrangements in respect of its environmental water and related services projects.

The Group concluded that all the BOT and TOT arrangements and certain BOO arrangements are service concession arrangements under IFRIC 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In respect of BOT and TOT arrangements, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration. Infrastructure for BOO arrangements is used in the service concession arrangements for its entire or substantial useful life.

(b) Sources of estimation uncertainty

Notes 10 and 22 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Construction contracts

As explained in policy notes 1(m) and 1(u)(i), revenue and profit recognition on an incompleted project is dependent on estimating the final outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the "Gross amounts due from customers for contract work" as disclosed in note 13 will not include profit which the Group may eventually realise from the work to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the receivables, customer credit-worthiness, and historical write-off experience. If the financial conditions of customers were to deteriorate, actual write-offs would be higher than estimated.

(iii) Other impairment losses

If circumstances indicate that the carrying values of investment in associate, fixed assets and intangible assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to estimate precisely fair values because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management reassess these estimates at each balance sheet date. Additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 Turnover

The principal activities of the Group are construction and operation of environmental water and related services projects (waste-water treatment plants, reusable water treatment plants and water source heat pump projects).

Turnover represents the revenue from construction services, revenue from operation services and finance income. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Revenue from construction services	80,999	199,702
Revenue from operation services	284,887	242,037
Finance income	139,951	132,668
	505,837	574,407

The aggregated revenues from construction services, operation services and finance income derived from local government authorities in the PRC for the six months ended 30 June 2014 amounted to $466,184,000 (six months ended 30 June 2013: $550,741,000 (unaudited)). Details of concentrations of credit risk arising from these customers are set out in note 22(a).

4 Other revenue and other loss

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Other revenue		
Interest income	654	3,328
Interest income from a fellow subsidiary	252	—
Government grant*	1,204	—
Others	1,801	1,801
	3,911	5,129
Other loss		
Net loss on sale of property, plant and equipment	148	51

* Government grant of $1,204,000 (six months ended 30 June 2013: Nil (unaudited)) was granted during the six months ended 30 June 2014 to subsidise certain environmental water and related services projects of the Group in the PRC, of which the entitlement was unconditional and under the discretion of the relevant authorities.

5 Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2014	2013
	$'000	$'000
		(unaudited)
(a) Finance costs		
Interest on bank advances wholly repayable within five years	21,745	28,219
Interest on other bank advances and other loans	3,140	4,365
Interest expense to a fellow subsidiary	8,434	5,739
Interest expense to intermediate holding company	1,419	—
	34,738	38,323
(b) Staff costs		
Contributions to defined contribution retirement plan	2,506	2,546
Salaries, wages and other benefits	22,160	19,643
	24,666	22,189
(c) Other items		
Amortisation		
— interest in leasehold land held for own use under operating leases	165	164
— intangible assets	2,565	1,245
Depreciation	6,522	7,363
Net foreign exchange loss	7,477	1,277
Operating lease charges: minimum lease payments		
— hire of premises	200	18

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Current tax - PRC Income Tax		
Provision for the period	33,410	26,741
Under-provision in respect of prior years	1,543	264
	34,953	27,005
Deferred tax		
Origination and reversal of temporary differences	34,103	29,483
	69,056	56,488

No provision for Hong Kong Profits Tax was made as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended 30 June 2014 and 2013.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in this jurisdiction.

Taxation for the PRC operations is charged at the statutory rate of 25% of the assessable profits under taxation ruling in the PRC. During the six months ended 30 June 2014 and 2013, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Profit before taxation	247,246	190,199
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	61,943	46,447
Tax effect of non-deductible expenses	2,871	6,077
Tax effect of non-taxable income	(2,032)	(74)
Tax effect of profits entitled to tax concession in the PRC	(4,985)	(3,548)
Tax effect of withholding tax on undistributed profits of PRC subsidiaries	9,716	7,322
Under-provision in respect of prior years	1,543	264
Actual tax expense	69,056	56,488

7 Directors' remuneration

Directors' remuneration is as follows:

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Fees	Nil	Nil
Other emoluments	Nil	Nil

8 Fixed assets

	Land and buildings $'000	Plant and machinery $'000	Leasehold improvements, furniture and fixtures $'000	Motor vehicles, electronic equipment and other fixed assets $'000	Construction in progress $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total fixed assets $'000
Cost:								
At 1 January 2013	61,490	16,613	4,467	41,862	87,361	211,793	8,137	219,930
Exchange adjustments	2,325	954	130	1,264	1,215	5,888	231	6,119
Additions	—	—	377	4,535	7,378	12,290	—	12,290
Disposals	—	—	(167)	(933)	—	(1,100)	—	(1,100)
Adjustments	—	(21,854)	—	—	—	(21,854)	—	(21,854)
Transferred from construction in progress	40,554	55,400	—	—	(95,954)	—	—	—
At 31 December 2013	104,369	51,113	4,807	46,728	—	207,017	8,368	215,385
Accumulated depreciation and amortisation:								
At 1 January 2013	2,388	1,642	3,246	23,167	—	30,443	434	30,877
Exchange adjustments	128	87	97	737	—	1,049	17	1,066
Charge for the year	4,192	2,855	433	6,433	—	13,913	330	14,243
Written back on disposal	—	—	(167)	(849)	—	(1,016)	—	(1,016)
At 31 December 2013	6,708	4,584	3,609	29,488	—	44,389	781	45,170
Net book value:								
At 31 December 2013	97,661	46,529	1,198	17,240	—	162,628	7,587	170,215

	Land and buildings $'000	Plant and machinery $'000	Leasehold improvements, furniture and fixtures $'000	Motor vehicles, electronic equipment and other fixed assets $'000	Construction in progress $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total fixed assets $'000
Cost:								
At 1 January 2014	104,369	51,113	4,807	46,728	—	207,017	8,368	215,385
Exchange adjustments	(2,644)	(1,295)	(113)	(1,186)	—	(5,238)	(212)	(5,450)
Additions	—	4	341	1,369	—	1,714	—	1,714
Disposals	—	—	(1,279)	(1,160)	—	(2,439)	—	(2,439)
At 30 June 2014	101,725	49,822	3,756	45,751	—	201,054	8,156	209,210
Accumulated depreciation and amortisation:								
At 1 January 2014	6,708	4,584	3,609	29,488	—	44,389	781	45,170
Exchange adjustments	(190)	(131)	(82)	(759)	—	(1,162)	(21)	(1,183)
Charge for the period	2,203	1,607	243	2,469	—	6,522	165	6,687
Written back on disposal	—	—	(1,267)	(977)	—	(2,244)	—	(2,244)
At 30 June 2014	8,721	6,060	2,503	30,221	—	47,505	925	48,430
Net book value:								
At 30 June 2014	93,004	43,762	1,253	15,530	—	153,549	7,231	160,780

The analysis of net book value of properties is as follows:

	At 30 June 2014 $'000	At 31 December 2013 $'000
In the PRC (outside Hong Kong):		
— medium-term leases	100,235	105,248
Representing:		
Land and buildings	93,004	97,661
Interest in leasehold land held for own use under operating leases	7,231	7,587
	100,235	105,248

9 Intangible assets

	Environmental water and related services project operating rights $'000
Cost:	
At 1 January 2013	148,917
Exchange adjustments	4,227
At 31 December 2013	153,144
Accumulated amortisation:	
At 1 January 2013	2,055
Exchange adjustments	101
Charge for the year	2,945
At 31 December 2013	5,101
Net book value:	
At 31 December 2013	148,043
Cost:	
At 1 January 2014	153,144
Exchange adjustments	(3,879)
At 30 June 2014	149,265
Accumulated amortisation:	
At 1 January 2014	5,101
Exchange adjustments	(152)
Charge for the period	2,565
At 30 June 2014	7,514
Net book value:	
At 30 June 2014	141,751

Amortisation of intangible assets is included in "Direct costs and operating expenses" in the consolidated income statement.

10 Goodwill

	$'000
At 1 January 2013, 1 January 2014, 31 December 2013 and 30 June 2014	9,538

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's CGU identified in relation to the environmental water project construction and operation business.

The recoverable amount of the respective CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Discount rates of 10% to 12% (31 December 2013: 10% to 12%) have been used for the value-in-use calculations at 30 June 2014. Management determined the budgets based on service agreements governing the relevant operations. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

No impairment is considered necessary at 31 December 2013 and 30 June 2014.

11 Interest in associate

	At 30 June 2014 $'000	At 31 December 2013 $'000
Share of net assets	—	—

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available:

			Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of establishment and operation**	**Group's effective interest**	**held by the Company**	**held by a subsidiary**	**Principal Activity**
Qingdao Veolia Water Operating Company Limited ("Qingdao Veolia")	Established	PRC	21%	—	21%	Operation of waste-water treatment plants (note)

Note: Qingdao EB-VW Waste Water Treatment Co., Ltd, ("Qingdao EB-VW"), a subsidiary of the Group, subcontracted to Qingdao Veolia the provision of the operation and maintenance services in respect of the waste-water treatment plants in Qingdao.

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Gross amounts of the associate's		
Current assets	6,353	16,172
Non-current assets	676	749
Current liabilities	(16,226)	(18,748)
Equity	(9,197)	(1,827)

	Six months ended 30 June 2014 $'000	Six months ended 30 June 2013 $'000 (unaudited)
Revenue	37,713	38,763
Loss for the period (note)	(7,484)	(767)
Other comprehensive income	114	(65)
Total comprehensive income	(7,370)	(832)

	At 30 June 2014 $'000	At 31 December 2013 $'000
Reconciled to the Group's interest in the associate		
Gross amounts of net liabilities of the associate	(9,197)	(1,827)
Group's effective interest	21%	21%
Group's share of net assets of the associate (note)	—	—
Carrying amount in consolidated financial statements	—	—

Note: As at 30 June 2014 and 31 December 2013, the Group's share of accumulated loss of Qingdao Veolia exceeds the Group's interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued.

12 Debtors, other receivables, deposits and prepayments

	At 30 June 2014 $'000	At 31 December 2013 $'000
Debtors	168,744	143,238
Loan receivable	—	51,156
Other receivables, deposits and prepayments	1,951,589	1,948,929
Amounts due from intermediate holding company	—	170,520
Amounts due from fellow subsidiaries	—	116
	2,120,333	2,313,959
Less: Non-current portion		
— other receivables and deposits	(1,712,199)	(1,721,439)
— amounts due from intermediate holding company	—	(170,327)
	(1,712,199)	(1,891,766)
Current portion	408,134	422,193

Included in "Debtors, other receivables, deposits and prepayments" are debtors with the following ageing analysis as of the balance sheet date:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Current	**83,112**	**82,421**
Within 1 month past due	33,777	9,755
More than 1 month but within 3 months past due	10,701	11,711
More than 3 months but within 6 months past due	9,578	7,678
More than 6 months but within 12 months past due	15,665	9,386
More than 12 months past due	15,911	22,287
Amounts past due	85,632	60,817
	168,744	143,238

Debtors are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 22(a).

Included in "Debtors, other receivables, deposits and prepayments" of the Group are debtors of $168,744,000 (31 December 2013: $143,238,000) of which $36,603,000 (31 December 2013: $53,153,000) are due from a non-controlling shareholder and $11,977,000 (31 December 2013: $10,979,000) are due from a related company as at 30 June 2014. Debtors represent revenue from operation services. There was no recent history of default in respect of the Group's debtors. Since most of the debtors are local government authorities in the PRC and based on past experience, management believes that no impairment allowance is necessary in respect of the past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. No impairment loss was recognised by the Group at 30 June 2014 (31 December 2013: Nil).

"Debtors, other receivables, deposits and prepayments" include balances totalling $1,890,810,000 (31 December 2013: $1,901,476,000) which bear interest at rates ranging from 5.94% to 7.83% (31 December 2013: 5.94% to 7.83%) per annum and represent the considerations paid for the acquisition of waste-water treatment plants under TOT arrangements, among which $205,807,000 (31 December 2013: $208,120,000) are due from a non-controlling shareholder and $503,601,000 (31 December 2013: $513,433,000) are due from a related company as at 30 June 2014. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the TOT arrangements. No impairment loss was recognised by the Group at 30 June 2014 (31 December 2013: Nil).

The amounts due from intermediate holding company are unsecured, interest free and not expected to be settled within one year, except for an amount of $193,000 as at 31 December 2013 which was recoverable on demand.

The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand.

The loan receivable of 31 December 2013 was unsecured, interest-bearing at 11% per annum, due from an unrelated party and repaid in January 2014.

All of the current portion of the above balances is expected to be recovered or recognised as expense within one year.

13 Gross amounts due from customers for contract work

	At 30 June 2014 $'000	At 31 December 2013 $'000
Contract costs incurred plus recognised profits less anticipated losses	3,401,578	3,498,168
Less: Progress billings	(1,051,627)	(1,050,753)
Net contract work	2,349,951	2,447,415
Representing:		
Gross amounts due from customers for contract work		
— Non-current	2,087,120	2,149,181
— Current	262,831	298,234
	2,349,951	2,447,415

Included in "Gross amounts due from customers for contract work" are amount due from a non-controlling shareholder of $196,791,000 (31 December 2013: $212,609,000) and amount due from a related company of $187,556,000 (31 December 2013: $201,168,000) as at 30 June 2014.

"Gross amounts due from customers for contract work" represent revenue from construction under BOT and BT ("Build-Transfer") arrangements or upgrade services under TOT arrangements and bear interest at rates ranging from 5.94% to 7.83% (31 December 2013: 5.94% to 7.83%) per annum as at 30 June 2014. Among the total of $2,349,951,000 (31 December 2013: $2,447,415,000), $1,902,314,000 (31 December 2013: $1,915,967,000) relates to BOT and TOT arrangements with operation commenced. The amounts for BOT and TOT arrangements are not yet due for payment and will be settled by revenue to be generated during the operating periods of the arrangements. The amount for BT arrangements will be settled according to respective repayment schedules as stated in the agreements.

14 Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Raw materials and operating supplies	7,601	7,162

15 Pledged bank deposits

The amounts are pledged to secure certain bank loans of the Group.

16 Cash and cash equivalents

	At 30 June 2014 $'000	At 31 December 2013 $'000
Deposits with banks	31,162	—
Cash at bank and in hand	284,851	246,945
	316,013	246,945

Included in "Cash and cash equivalents" at the balance sheet date are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	At 30 June 2014 US$'000	At 31 December 2013 US$'000
United States Dollars	383	1,784

Included in "Cash and cash equivalents" are the following deposits placed with a related party bank:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Deposits with related party bank	10,900	7,289

17 Bank loans

The bank loans were repayable as follows:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Within 1 year or on demand	268,241	277,771
After 1 year but within 2 years	196,947	231,059
After 2 years but within 5 years	281,924	339,752
After 5 years	80,623	15,347
	559,494	586,158
	827,735	863,929

The bank loans were secured as follows:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Bank loans		
— Secured	619,445	660,968
— unsecured	208,290	202,961
	827,735	863,929

Certain banking facilities of the Group are secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements, bank deposits and fixed assets of the Group. Such banking facilities of $619,445,000 (31 December 2013: $1,226,578,000) as at 30 June 2014 were utilised to the extent of $619,445,000 (31 December 2013: $660,968,000). Among the secured banking facilities, $172,827,000 (31 December 2013: $771,944,000) are guaranteed by the intermediate holding company and were utilised to the extent of $172,827,000 (31 December 2013: $229,115,000) as at 30 June 2014.

At 30 June 2014, the unsecured banking facilities, amounting to $215,770,000 (31 December 2013: $202,961,000), were utilised to the extent of $208,290,000 (31 December 2013: $202,961,000). All of the non-current interest-bearing borrowings are carried at amortised costs. None of the non-current interest-bearing borrowings is expected to be settled within one year.

Banking facilities of $179,496,000 (31 December 2013: $619,563,000) are subject to the fulfilment of covenants relating to certain of the Group's financial ratios as at 30 June 2014. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. At 30 June 2014, such facilities were utilised to the extent of $172,016,000 (31 December 2013: $76,734,000). The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 22(b). As at 30 June 2014, none of the covenants relating to drawn down facilities had been breached (31 December 2013: Nil).

Included in "Bank loans" are the following loans from a related party bank:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Loans from a related party bank	96,105	110,881

The loans from a related party bank as at 30 June 2014 and 31 December 2013 are unsecured, bear interest at rates announced by the People's Bank of China and will be settled by instalment until 2018.

18 Creditors, other payables and accrued expenses

	At 30 June 2014 $'000	At 31 December 2013 $'000
Trade creditors		
— third parties	145,671	201,237
— fellow subsidiaries	22,437	179,765
	168,108	381,002
Other payables and accrued expenses	45,510	74,270
Amounts due to intermediate holding companies	183,814	6,548
Amounts due to immediate holding company	—	1,580,841
Amounts due to fellow subsidiaries	283,583	164,727
	681,015	2,207,388
Less: Non-current portion		
— amounts due to intermediate holding companies	(80,930)	(6,548)
— amounts due to immediate holding company	—	(1,580,841)
— amounts due to fellow subsidiaries	(282,208)	—
	(363,138)	(1,587,389)
Current portion	317,877	619,999

Included in "Trade creditors" of the Group is an amount of $24,611,000 (31 December 2013: $25,355,000) which is payable to an associate as at 30 June 2014. The balance is due within one month and represents service fee for operation of waste-water treatment plants.

Apart from the above, creditors totalling $135,929,000 (31 December 2013: $349,025,000) represent construction payables for the Group's BT, BOT and certain BOO arrangements as at 30 June 2014, among which $623,000 (31 December 2013: $1,279,000) is due to non-controlling shareholders. The construction payables are not yet due for payment. Included in "Other payables and accrued expenses" of the Group as at 31 December 2013 was an amount of $6,395,000 which was payable to a non-controlling shareholder. The amount due to non-controlling shareholder is unsecured, interest free and expected to be settled within one year.

Included in the amounts due to intermediate holding companies are balances of $56,000,000 and $112,185,000 which bear interest at HIBOR+2.5% and 93% of the rates announced by the People's Bank of China respectively as at 30 June 2014, among which $87,255,000 is repayable within one year and $80,930,000 is repayable by 2017. The remaining amounts due to immediate holding company and intermediate holding companies are unsecured, interest free and have no fixed terms of repayment. As at 31 December 2013, the immediate holding company and intermediate holding companies have agreed not to seek repayment of the amounts within twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

The amounts due to fellow subsidiaries (including trade payables to fellow subsidiaries) are unsecured and interest free except for $282,208,000 (31 December 2013: $151,583,000) which bears interest at 100% (31 December 2013: 120%) of the rates announced by the People's Bank of China as at 30 June 2014. Trade payables to fellow subsidiaries are repayable in accordance with contract terms. Amounts due to fellow subsidiaries which are not trade nature are repayable on demand except for $282,208,000 as at 30 June 2014 which is repayable by 2017.

19 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Provision for PRC income tax for the period/year	33,410	57,342
Provisional tax paid	(17,718)	(41,708)
	15,692	15,634
Balance of PRC income tax provision relating to prior years	5,664	2,896
	21,356	18,530
Represented by:		
Tax recoverable	—	(3,741)
Tax payable	21,356	22,271
	21,356	18,530

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

	Temporary differences on assets recognised under IFRIC 12	**Undistributed profits of subsidiaries**	**Total**
	$'000	**$'000**	**$'000**
At 1 January 2013	195,562	49,561	245,123
Exchange adjustments	6,085	1,624	7,709
Charged to profit or loss	37,470	15,201	52,671
At 31 December 2013 and 1 January 2014	239,117	66,386	305,503
Exchange adjustments	(6,276)	(1,770)	(8,046)
Charged to profit or loss	24,387	9,716	34,103
At 30 June 2014	257,228	74,332	331,560

20 Equity compensation benefits

Pursuant to the share option scheme of the Company's intermediate holding company, China Everbright International Limited, certain directors of the Company were eligible to participate in the scheme to acquire shares of the intermediate holding company. The share option scheme was expired on 26 May 2013.

No employee benefit cost or obligation was recognised in the Group's consolidated financial statements during the periods ended 30 June 2013 and 2014 in respect of the share options as they were fully vested before 1 January 2013.

21 Capital and reserves

(a) Share capital

(i) Authorised and issued share capital

The Company was incorporated on 25 March 2003 with an authorised share capital of US$50,000 (equivalent to approximately $388,000) divided into 50,000 shares of US$1 each. 2 shares (31 December 2013: 1 share) of US$1 were allotted and issued as fully paid at par and the share capital of the Company amounted to $16 (31 December 2013: $8) as at 30 June 2014.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Issue of ordinary shares

On 18 June 2014, 1 new ordinary share was allotted and issued to China Everbright Environmental Protection Holdings Limited ("CEEPH") at consideration for setting-off against the Company's indebtedness to CEEPH of $1,210,050,000 of which $8 was credited to share capital and the balance was credited to the share premium account.

(b) Nature and purpose of reserves

(i) Share premium

Under the British Virgin Islands Business Companies Act, 2004 (as amended) and the Articles of Association of the Company, the directors of the Company may by resolution authorise a distribution by the Company to shareholders at such time and of such amount, as they think fit, if the Company will, immediately after the distribution, satisfy the solvency test, i.e. if the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(iii) Reserve fund

Statutory reserve - wholly foreign-owned enterprises

Subsidiaries of the Group in the PRC, which are wholly foreign-owned enterprises, follow the accounting principles and relevant financial regulations of the PRC applicable to wholly foreign-owned enterprises ("PRC GAAP - WFOE"), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises (企业会计制度 [财会 (2000) 25 号]), the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP - WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to equity owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(c) Distributability of reserves

At 30 June 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $1,204,965,000 (31 December 2013: Nil).

(d) Capital management

The Group's primary objectives when managing capital are to maintain a strong credit rating and healthy capital ratios in order to support its business. As the Group is part of a larger group, the Group's sources of additional capital and polices for distribution of excess capital may also be affected by the capital management objectives of the larger group.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the larger group to which the Group belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group or the larger group.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, was 63% and 36% as at 31 December 2013 and 30 June 2014 respectively.

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 17 to the financial statements, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) *Credit risk*

Management has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis. Debts are usually due within 30 days from the date of billing.

Debtors of the Group represent receivables in respect of revenue from operation services which are settled on a monthly basis. In addition, the Group has gross amounts due from customers for contract work and other receivables in respect of the BT, BOT and TOT arrangements.

At 30 June 2014, "Debtors, other receivables, deposits and prepayments" of the Group amounted to $2,120,333,000 (31 December 2013: $2,313,959,000) and "Gross amounts due from customers for contract work" amounted to $2,349,951,000 (31 December 2013: $2,447,415,000) respectively, of which $1,461,436,000 (31 December 2013: $1,497,132,000) were due from the largest customer and $3,278,495,000 (31 December 2013: $3,715,927,000) were due from five largest customers in aggregate of the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Since the parties to BT, BOT and TOT arrangements are local government authorities in the PRC, the Group considers the credit risk is low.

The Group provided guarantees to a fellow subsidiary which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantees at the balance sheet date is disclosed in note 26. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from "Debtors, other receivables, deposits and prepayments" as well as "Gross amounts due from customers for contract work" are set out in notes 12 and 13 respectively.

(b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flow					
	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
At 31 December 2013						
Bank loans	334,071	269,065	377,818	16,302	997,256	863,929
Creditors, other payables and accrued expenses	619,999	1,587,389	—	—	2,207,388	2,207,388
	954,070	1,856,454	377,818	16,302	3,204,644	3,071,317
Financial guarantee issued:						
Maximum amount guaranteed (note 26)	196,951	—	—	—	196,951	—
At 30 June 2014						
Bank loans	322,296	233,512	327,634	94,352	977,794	827,735
Creditors, other payables and accrued expenses	328,338	36,729	405,337	—	770,404	681,015
	650,634	270,241	732,971	94,352	1,748,198	1,508,750

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, bank deposits, loan receivable, bank loans and other loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-bearing financial liabilities less loan receivable, bank deposits and cash and cash equivalents) at the balance sheet date.

	At 30 June 2014		At 31 December 2013	
	Effective interest rate	$'000	Effective interest rate	$'000
Net fixed rate receivable:				
Loan receivable	—	—	11%	(51,156)
Net variable rate borrowings:				
Bank loans	5.90%-7.21%	827,735	5.90%-7.21%	863,929
Amounts due to fellow subsidiaries	6.40%	282,208	7.38%	151,583
Amounts due to intermediate holding companies	2.88%-5.72%	168,185	—	—
Less:Pledged bank deposits	0.35%-1.27%	(53,008)	0.35%-1.27%	(43,468)
Cash and cash equivalents	0.01%-1.49%	(316,013)	0.01%-1.27%	(246,945)
		909,107		725,099
Total net borrowings		909,107		673,943

(ii) Sensitivity analysis

At 30 June 2014, it is estimated that a general increase/decrease of one percent in interest rates, with all other variables held constant, would decrease/increase the Group's profit before taxation by approximately $9,091,000 (31 December 2013: $6,739,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit before taxation that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit before taxation is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis at 31 December 2013.

(d) *Currency risk*

Majority of the Group's transactions are denominated in the functional currency of the entity to which they relate. Presently, there is no hedging policy with respect of the foreign exchange exposure. The Group's transactional currencies are Chinese Renminbi and Hong Kong dollars as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in Chinese Renminbi and Hong Kong dollars, the Group's transactional foreign exchange exposure was insignificant.

(e) *Fair value measurement*

The fair values of cash and cash equivalents, debtors, bank deposits, current portion of other receivables, deposits and prepayments and creditors, other payables and accrued expenses are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of non-current portion of other receivables and deposits, gross amounts due from customers for contract work, bank loans and other loans approximate their fair values.

As set out in notes 12 and 18, the Group had non-current amounts due from/to group companies which are interest-free, it is not considered practicable to estimate the fair values of the amounts because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive.

23 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) The Group entered into the following related party transactions with a related party bank:

	Six months ended 30 June	
	2014	**2013**
	$'000	**$'000**
		(unaudited)
Interest expense	3,486	4,266

(b) The Group entered into the following related party transactions with an associate:

	Six months ended 30 June	
	2014	2013
	$'000	$'000 (unaudited)
Service expense for operation of waste-water treatment plants	22,165	21,829

(c) The Group entered into the following related party transactions with a non-controlling shareholder of the Group:

	Six months ended 30 June	
	2014	2013
	$'000	$'000 (unaudited)
Revenue from operation services	26,784	27,218
Finance income	13,366	13,768

(d) The Group entered into the following related party transactions with a related company and subsidiaries of non-controlling shareholders of the Group:

	Six months ended 30 June	
	2014	2013
	$'000	$'000 (unaudited)
Revenue from operation services	26,848	21,752
Finance income	26,277	26,567
Technical service expense	663	662

(e) The Group entered into the following related party transactions with fellow subsidiaries:

	Six months ended 30 June	
	2014	2013
	$'000	$'000 (unaudited)
Construction management and consultancy fee expense	17,987	57,450

24 Commitments

(a) The Group had no outstanding purchase commitments (31 December 2013: $33,553,000) in connection with the Group's construction contracts not provided for in the financial statements as at 30 June 2014.

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2014 $'000	At 31 December 2013 $'000
Within 1 year	6	111

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of these leases includes contingent rentals.

25 Pledge of assets

Details of assets pledged are set out in note 17. The aggregate net book value of assets pledged amounted to $2,850,846,000 (31 December 2013: $2,962,400,000) as at 30 June 2014.

26 Contingent liabilities

Financial guarantees issued

As at 31 December 2013, the Group issued financial guarantees to a fellow subsidiary in relation to banking facilities granted to the fellow subsidiary of $447,615,000. The directors do not consider it is probable that a claim will be made against the Company under the guarantees. The maximum liability of the Group under the guarantees issued is the facility drawn down by the fellow subsidiary of $196,951,000 as at 31 December 2013. There was no such financial guarantee as at 30 June 2014.

Due to the related party nature of the instruments, the directors considered it is not practicable to estimate the fair values of the financial guarantees and therefore they have not been recognised in the consolidated financial statements.

27 Non-adjusting events after the balance sheet date

On 24 July 2014, the Company entered into agreements with Veolia Water S.A. ("Veolia"), the non-controlling shareholder of EB-VW HK Holding Company Limited ("EB-VW", a non-wholly owned subsidiary of the Company) and the controlling shareholder of Qingdao Veolia, an associate of the Company, pursuant to which Veolia agreed to sell and the Company agreed to purchase the 40% equity interest in EB-VW and 78% equity interest in Qingdao Veolia at considerations of RMB70,891,700 and RMB1,800,000 respectively.

EB-VW was also renamed to Everbright Water (Qingdao) Holdings Limited following the transactions. Upon completion of the transactions EB-VW becomes a wholly-owned subsidiary of the Company whereas Qingdao Veolia becomes a non-wholly owned subsidiary of the Company.

28 Immediate and ultimate controlling party

At 30 June 2014, the directors consider the immediate parent and ultimate controlling party of the Group to be China Everbright Water Holdings Limited and China Everbright Holdings Company Limited, which are incorporated in the British Virgin Islands and Hong Kong respectively. Neither of them produces financial statements available for public use. The intermediate holding company, China Everbright International Limited, produces financial statements available for public use.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the six months ended 30 June 2014 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
IFRS 15, *Revenue from contracts with customers*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application but is not yet in a position to state whether these amendments and new standard would have a significant impact on the Group's results of operations and financial position.

30 INFORMATION OF THE SUBSIDIARIES

The Company has direct and indirect interests in the following subsidiaries.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by a subsidiary	Principal Activity
EB-VW	Hong Kong	10,710,680 ordinary shares	60%	60%	—	Investment holding
Everbright Reusable Water Jiangyin Ltd *	PRC	USD5,000,000	100%	—	100%	Design, construction, operation and maintenance of reusable water treatment plant
Everbright Water (Boxing) Limited * (note (a))	PRC	$55,000,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Dezhou) Holdings Limited	Hong Kong	100 ordinary shares	100%	100%	—	Investment holding
Everbright Water (Dezhou) Limited * (note (a))	PRC	USD12,280,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant
Everbright Water (Jiangyin) Limited ("EB Water Jiangyin") # (notes (a) and (b))	PRC	RMB180,000,000	70%	—	70%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Ji'nan) Holdings Limited	Hong Kong	100 ordinary shares	100%	100%	—	Investment holding
Everbright Water (Ji'nan) Limited * (note (a))	PRC	USD35,430,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal Activity
			Group's effective interest	held by the Company	held by a subsidiary	
Everbright Water (Jinan Licheng) Limited *(note (a))	PRC	RMB148,530,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants and reusable water treatment plant
Everbright Water (Lingxian) Limited* (note (a))	PRC	USD8,381,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants
Everbright Water (Wuxi) Holdings Limited	Hong Kong	100 ordinary shares	100%	100%	—	Investment holding
Everbright Water (Xinyi) Limited *	PRC	$174,590,000	100%	—	100%	Design and construction of waste-water treatment plant and surface water treatment plant
Everbright Water (Xuzhou) Holdings Limited	Hong Kong	100 ordinary shares	100%	100%	—	Investment holding
Everbright Water (Zhangqiu) Limited* (note (a))	PRC	RMB30,349,700	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant
Everbright Water (Zibo) Holdings Limited	Hong Kong	100 ordinary shares	100%	100%	—	Investment holding
Everbright Water (Zibo) Limited * (note (a))	PRC	USD31,158,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plants and reusable water treatment plant
Everbright Water (Zibo Zhoucun) Water Purification Co., Ltd. * (note (a))	PRC	$35,000,000	100%	—	100%	Design, construction, operation and maintenance of waste-water treatment plant

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by a subsidiary	Principal Activity
Qingdao EB-VW# (note (a))	PRC	USD15,257,000	Note (c)	—	Note (c)	Construction, operation and maintenance of waste-water treatment plants
Zibo Everbright Water Energy Development Company Limited * (note (b))	PRC	RMB51,350,000	100%	—	100%	Design, construction, operation and maintenance of waste-water source heat pump plants

* Registered under the laws of the PRC as foreign investment enterprise.

Registered under the laws of the PRC as sino-foreign co-operation joint ventures.

The following table lists out the information relating to material subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	EB Water (Jiangyin)	
	At 30 June 2014 $'000	**At 31 December 2013 $'000**
NCI percentage	30%	30%
Current assets	137,846	159,832
Non-current assets	648,935	672,079
Current liabilities	(102,771)	(119,245)
Non-current liabilities	(168,009)	(213,393)
Net assets	516,001	499,273
Carrying amount of NCI	154,656	149,365

	Six months ended 30 June	
	2014 $'000	**2013 $'000 (unaudited)**
Revenue	68,468	63,393
Profit for the period	29,643	15,984
Total comprehensive income	16,728	22,407
Profit allocated to NCI	8,893	4,795
Cash inflows from operating activities	46,124	41,920
Cash inflows/(outflows) from investing activities	49,796	(1,041)
Cash outflows from financing activities	(62,074)	(23,310)

	EB-VW and Qingdao EB-VW	
	At 30 June 2014 $'000	At 31 December 2013 $'000
NCI percentage	Note (c)	Note (c)
Current assets	115,095	108,245
Non-current assets	370,322	387,391
Current liabilities	(97,620)	(107,250)
Non-current liabilities	(40,613)	(39,860)
Net assets	347,184	348,526
Carrying amount of NCI	191,624	193,143

	Six months ended 30 June	
	2014 $'000	2013 $'000 (unaudited)
Revenue	40,150	40,986
Profit for the period	8,245	8,180
Total comprehensive income	(1,342)	12,978
Profit allocated to NCI	3,298	3,272
Cash inflows from operating activities	24,044	18,377
Cash outflows from investing activities	(16)	(39)
Cash outflows from financing activities	(20,740)	(16,501)

Notes:

(a) The subsidiaries of the Group entered into service concession arrangements with the local government authorities (the "grantors"). Pursuant to the service concession arrangements, the Group has to design, construct and/or upgrade, operate and maintain waste-water treatment plants in the PRC for a period of 25 to 30 years. The Group has the obligation to maintain the waste-water treatment plants in good condition. The grantors guarantee the Group will receive minimum annual payments in connection with the arrangements. Upon expiry of the concession periods, the waste-water treatment plants and the related facilities will be transferred to the local government authorities.

The service concession arrangements do not contain renewal options. The standard rights of the grantors to terminate the agreements include failure of the Group to construct, upgrade or operate the waste-water treatment plants and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the agreements include failure to receive payments for waste-water treatment service from the grantors and in the event of a material breach of the terms of the agreements.

Revenue relates to the construction services provided in constructing or upgrading the waste-water treatment plants is recognised as "Gross amounts due from customers for contract work" in the financial statements.

(b) The subsidiaries of the Group entered into service concession arrangements with the grantors. Pursuant to the service concession arrangements, the Group was granted rights to construct, operate and maintain environmental water and related services projects in the PRC for a period of 30 years. The service fees are based on the extent of services rendered and are subject to the approvals from the relevant local government authorities. During the operating period, the Group will be responsible to maintain the projects in good condition.

The service concession arrangements do not contain renewal options. Both the grantor and the Group have the rights to terminate the agreements in the event of a material breach of the terms of the agreements.

Operating rights of the projects are recognised as intangible assets.

(c) EB-VW, an 60% owned subsidiary of the Company and the foreign joint venture partner of Qingdao EB-VW, is committed to contribute 60% of Qingdao EB-VW's registered capital. The remaining 40% registered capital is contributed by the PRC joint venture partner. EB-VW is fully entitled to the net profit of Qingdao EB-VW for the first 14 years of the joint venture period. From the 15th year of the joint venture period onwards, the net profit of Qingdao EB-VW is to be shared by EB-VW and the PRC joint venture partner on a 98:2 basis.

The financial information of the HanKore Group as included in Appendix J to this Circular has been reproduced from the audited consolidated financial statements of HanKore Environment Tech Group Limited and its subsidiaries for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, with the exception that the pages have been renumbered.

Statement by Directors

In our opinion:

(a) the financial statements set out on pages FS1 to FS89 are drawn up so as to present fairly, in all material respects, the states of affairs of the Group as at 31 December 2011, 2012 and 2013, and 30 June 2014 and the results, changes in equity and cash flows of the Group for the years ended 31 December 2011, 2012 and 2013 and the six months period ended 30 June 2014 in accordance with International Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Chen Dawei, David
Executive Chairman

Yau Wing-Yiu
Executive Director and Chief Financial Officer

30 September 2014

The financial information of the HanKore Group as included in Appendix J to this Circular has been reproduced from the audited consolidated financial statements of HanKore Environment Tech Group Limited and its subsidiaries for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, with the exception that the pages have been renumbered.

Independent Auditors' Report

Members of the Company
HanKore Environment Tech Group Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of HanKore Environment Tech Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013, and 30 June 2014, the consolidated statements of comprehensive income, changes in equity and cash flows of the Group for the years ended 31 December 2011, 2012 and 2013 and the six months period ended 30 June 2014, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages FS1 to FS89.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable preparation of consolidated financial statements that are free from misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 and of its consolidated financial performance and consolidated cash flows for the years and period then ended in accordance with International Financial Reporting Standards.

Other matter

We draw attention to the fact that we have not audited the accompanying consolidated statements of comprehensive income, changes in equity and cash flows for the six months period ended 30 June 2013, or any of the related notes and accordingly, we do not express audit opinion on them.

This report has been prepared for inclusion in the Circular of the Company in connection with the proposed acquisition by the Company of the entire issued and paid-up share capital of China Everbright Water Investments Limited and is not intended for any other purpose.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore

30 September 2014

Consolidated statements of financial position
As at 31 December 2011, 2012 and 2013, and 30 June 2014

	Note	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Assets					
Property, plant and equipment	5	42,632	50,862	54,772	54,863
Intangible assets	6	119,809	124,073	235,998	239,525
Available-for-sale investment	7	—	—	—	—
Financial receivables	8	1,606,929	1,593,029	1,904,149	1,917,250
Land use rights	9	48,742	46,745	44,726	43,717
Other receivables	11	—	—	17,533	14,105
Non-current assets		1,818,112	1,814,709	2,257,178	2,269,460
Financial receivables	8	124,240	138,719	145,946	174,184
Inventories	10	866	984	6,334	10,534
Trade and other receivables	11	58,878	72,838	162,341	131,499
Cash and cash equivalents	12	43,465	50,880	242,608	380,831
Current assets		227,449	263,421	557,229	697,048
Total assets		2,045,561	2,078,130	2,814,407	2,966,508
Equity					
Share capital	13	380,040	380,040	435,898	455,157
Reserves	14	764,372	773,999	916,526	988,629
Equity attributable to owners of the Company		1,144,412	1,154,039	1,352,424	1,443,786
Non-controlling interests		(229)	(229)	(229)	(229)
Total equity		1,144,183	1,153,810	1,352,195	1,443,557

	Note	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Liabilities					
Borrowings	15	387,779	365,873	741,008	884,016
Deferred tax liabilities	16	203,668	216,424	232,376	245,746
Other financial liabilities	18	—	—	4,597	1,405
Non-current liabilities		591,447	582,297	977,981	1,131,167
Borrowings	15	116,836	189,062	125,392	183,372
Trade and other payables	17	185,824	147,047	236,291	207,346
Other financial liabilities	18	7,236	5,891	115,421	795
Current tax liabilities		35	23	7,127	271
Current liabilities		309,931	342,023	484,231	391,784
Total liabilities		901,378	924,320	1,462,212	1,522,951
Total equity and liabilities		2,045,561	2,078,130	2,814,407	2,966,508

The accompanying notes form an integral part of these financial statements.

Consolidated statements of comprehensive income
For the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014

	Note	Year ended 31 December 2011 RMB'000	2012 RMB'000	2013 RMB'000	6 months ended 30 June 2013 RMB'000 *Unaudited*	2014 RMB'000
Revenue	20	268,474	203,801	575,689	220,203	166,682
Cost of sales		(215,062)	(90,616)	(346,007)	(140,754)	(107,579)
Gross profit		53,412	113,185	229,682	79,449	59,103
Other income	21	43,818	16,036	29,219	28,512	7,874
Distribution expenses		—	—	(1,325)	—	(864)
Administrative expenses		(58,155)	(55,133)	(65,080)	(31,236)	(67,917)
Other operating expenses		(141,367)	(6,965)	(87,480)	(3,789)	(46,723)
Results from operating activities		(102,292)	67,123	105,016	72,936	(48,527)
Finance income		159	123	1,204	290	1,227
Finance costs		(37,118)	(44,147)	(58,096)	(23,487)	(35,498)
Net finance costs	22	(36,959)	(44,024)	(56,892)	(23,197)	(34,271)
(Loss)/Profit before tax	23	(139,251)	23,099	48,124	49,739	(82,798)
Tax expense	24	(15,462)	(13,461)	(20,439)	(4,224)	(14,115)
(Loss)/Profit for the year/period		(154,713)	9,638	27,685	45,515	(96,913)
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Foreign currency translation differences from translation of foreign operations		12	(11)	—	—	—
Foreign currency translation differences realised from disposal of subsidiaries	31	85	—	—	—	—
Total other comprehensive income		97	(11)	—	—	—
Total comprehensive income for the year/period		(154,616)	9,627	27,685	45,515	(96,913)

	Note	Year ended 31 December			6 months ended 30 June	
		2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					Unaudited	
(Loss)/Profit attributable to:						
Owners of the Company		(154,710)	9,638	27,685	45,515	(96,913)
Non-controlling interests		(3)	—	—	—	—
(Loss)/Profit for the year/period		(154,713)	9,638	27,685	45,515	(96,913)
Total comprehensive income attributable to:						
Owners of the Company		(154,613)	9,627	27,685	45,515	(96,913)
Non-controlling interests		(3)	—	—	—	—
Total comprehensive income for the year/period		(154,616)	9,627	27,685	45,515	(96,913)
(Loss)/Earnings per share						
Basic (loss)/earnings per share (RMB)	25	(0.45)	0.02	0.06	0.11	(0.19)
Diluted (loss)/earnings per share (RMB)	25	(0.47)	0.02	0.06	0.10	(0.19)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2011

	<---------------- Attributable to owners of the Company ---------------->							
	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	189,876	932,177	(64)	79,812	(329,109)	872,692	(1,201)	871,491
Total comprehensive income for the year								
Loss for the year	—	—	—	—	(154,710)	(154,710)	(3)	(154,713)
Other comprehensive income								
Foreign currency translation differences	—	—	12	—	—	12	—	12
Foreign currency translation differences transferred to profit or loss on disposal of subsidiaries	—	—	85	—	—	85	—	85
Total other comprehensive income	—	—	97	—	—	97	—	97
Total comprehensive income for the year	—	—	97	—	(154,710)	(154,613)	(3)	(154,616)

The accompanying notes form an integral part of these financial statements.

		<-------------- Attributable to owners of the Company -------------->							
	Note	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners, recognised directly in equity									
Contributions by and distributions to owners									
Giant Delight Holdings Limited Subscription ("GDHL subscription")	13	100,848	100,769	—	—	—	201,617	—	201,617
Precious Wise Group Limited Settlement	13	87,498	130,555	—	—	—	218,053	—	218,053
Exercise of warrants		1,818	4,845	—	—	—	6,663	—	6,663
Total contributions by and distribution to owners		190,164	236,169	—	—	—	426,333	—	426,333
Changes in ownership interests in subsidiaries									
Disposal of a subsidiary		—	—	—	(79,812)	79,812	—	975	975
Total changes in ownership interests in subsidiaries		—	—	—	(79,812)	79,812	—	975	975
Total transactions with owners		190,164	236,169	—	(79,812)	79,812	426,333	975	427,308
At 31 December 2011		380,040	1,168,346	33	—	(404,007)	1,144,412	(229)	1,144,183

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2012

	<----------- Attributable to owners of the Company ----------->						
	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	380,040	1,168,346	33	(404,007)	1,144,412	(229)	1,144,183
Total comprehensive income for the year							
Profit for the year	—	—	—	9,638	9,638	—	9,638
Other comprehensive income							
Foreign currency translation differences	—	—	(11)	—	(11)	—	(11)
Total comprehensive income for the year	—	—	(11)	9,638	9,627	—	9,627
At 31 December 2012	380,040	1,168,346	22	(394,369)	1,154,039	(229)	1,153,810

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Note	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		<------ Attributable to owners of the Company						------>		
At 1 January 2013		380,040	1,168,346	22	—	—	(394,369)	1,154,039	(229)	1,153,810
Total comprehensive income for the year										
Profit for the year		—	—	—	—	—	27,685	27,685	—	27,685
Total comprehensive income for the year		—	—	—	—	—	27,685	27,685	—	27,685
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Share-based payment transactions	19	—	—	—	—	6,401	—	6,401	—	6,401
Issue of ordinary shares	13	23,363	47,155	—	—	—	—	70,518	—	70,518
Issue of ordinary shares related to business combination	31	28,695	48,965	—	—	—	—	77,660	—	77,660
Exercise of warrants		3,800	12,321	—	—	—	—	16,121	—	16,121
Transfer of retained earnings to statutory reserve		—	—	—	77	—	(77)	—	—	—
Total transactions with owners		55,858	108,441	—	77	6,401	(77)	170,700	—	170,700
At 31 December 2013		435,898	1,276,787	22	77	6,401	(366,761)	1,352,424	(229)	1,352,195

The accompanying notes form an integral part of these financial statements.

		<-------- Attributable to owners of the Company -------->						
	Note	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013		380,040	1,168,346	22	(394,369)	1,154,039	(229)	1,153,810
Total comprehensive income for the period								
Profit for the period, unaudited		—	—	—	45,515	45,515	—	45,515
Total comprehensive income for the period		—	—	—	45,515	45,515	—	45,515
Transactions with owners, recognised directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares related to business combination, unaudited	31	28,695	48,965	—	—	77,660	—	77,660
Exercise of warrants, unaudited		507	1,041	—	—	1,548	—	1,548
Total transactions with owners		29,202	50,006	—	—	79,208	—	79,208
At 30 June 2013		409,242	1,218,352	22	(348,854)	1,278,762	(229)	1,278,533

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity
For the six months period ended 30 June 2014

		<---- Attributable to owners of the Company ---->								
	Note	Share capital RMB'000	Share premium RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		435,898	1,276,787	22	77	6,401	(366,761)	1,352,424	(229)	1,352,195
Total comprehensive income for the period										
Loss for the period		—	—	—	—	—	(96,913)	(96,913)	—	(96,913)
Total comprehensive income for the period		—	—	—	—	—	(96,913)	(96,913)	—	(96,913)
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Issue of ordinary shares related to business combination		14,386	105,322	—	—	—	—	119,708	—	119,708
Exercise of warrants		4,873	37,203	—	—	—	—	42,076	—	42,076
Share-based payment transactions	19	—	—	—	—	26,491	—	26,491	—	26,491
Total transactions with owners		19,259	142,525	—	—	26,491	—	188,275	—	188,275
At 30 June 2014		455,157	1,419,312	22	77	32,892	(463,674)	1,443,786	(229)	1,443,557

The accompanying notes form an integral part of these financial statements.

Consolidated statements of cash flows
For the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014

	Note	Year ended 31 December			6 months ended 30 June	
		2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					Unaudited	
Cash flows from operating activities						
(Loss)/Profit before tax		(139,251)	23,099	48,124	49,739	(82,798)
Adjustments for:						
Depreciation of property, plant and equipment		2,278	1,473	1,973	782	1,140
Amortisation of intangible assets		3,696	3,870	6,014	2,068	4,217
Amortisation of land use rights		3,155	1,997	2,019	1,009	1,009
Bad debts written off		—	2,000	—	—	1,732
Impairment loss on other receivables		—	3,883	—	—	484
Impairment loss on available-for-sale investments		69,845	—	—	—	—
Impairment loss on property, plant and equipment		631	—	—	—	—
Gain on disposal of service concession rights	21	—	—	(21,820)	(21,820)	—
Net gain on extinguishment of account balances	21	(19,435)	—	—	—	—
(Gain)/Loss on disposal of property, plant and equipment		(43)	(280)	33	106	(151)
Net gain on disposal of subsidiaries	21	(6,095)	—	—	—	—
Loss on extinguishment of debts	13	70,530	—	—	—	—
Loss on liquidation of subsidiaries		—	22	—	—	—
Net fair value (gain)/loss on warrants		(6,504)	(1,345)	23,663	(1,188)	9,461
Fair value loss/(gain) on cross-currency swap		—	—	4,597	—	(3,192)
Loss/(Gain) on fair valuation of contingent consideration payable		—	—	54,181	(3,932)	26,697
Equity-settled share-based transactions		—	—	6,401	—	26,491
Net finance costs		36,959	44,024	56,892	23,197	34,271
Operating cash flows before working capital changes		15,766	78,743	182,077	49,961	19,361

The accompanying notes form an integral part of these financial statements.

		Year ended 31 December			6 months ended 30 June	
	Note	**2011**	**2012**	**2013**	**2013**	**2014**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
					Unaudited	
Changes in working capital:						
Financial receivables		(78,702)	(579)	(318,347)	(111,857)	(41,339)
Inventories		(160)	(118)	(5,053)	(2,064)	(4,200)
Trade and other receivables		(123,644)	(27,554)	(134,676)	(69,687)	(26,358)
Trade and other payables		200,127	(39,096)	130,772	119,925	32,734
Cash generated from/(used in) operations		13,387	11,396	(145,227)	(13,722)	(19,802)
Income tax refunded/(paid)		79	(717)	(3,683)	(1,139)	(7,601)
Net cash from/(used in) operating activities		13,466	10,679	(148,910)	(14,861)	(27,403)
Cash flows from investing activities						
Acquisition of concession rights		—	(7,489)	—	—	(7,744)
Acquisition of intangible assets		(302)	(645)	(677)	(242)	—
Acquisition of land use rights		(5,265)	—	—	—	—
Acquisition of subsidiaries, net of cash acquired	31	—*	—	3,867	3,867	—
Interest received		159	123	1,204	290	1,227
Purchase of property, plant and equipment		(2,221)	(2,373)	(4,032)	(1,810)	(1,581)
Proceeds from disposal of property, plant and equipment		44	650	370	888	501
Proceeds from disposal of a subsidiary, net of cash disposed off		2,434	—	—	—	—
Proceeds from disposal of concession rights		—	—	2,007	2,007	1,108
Net cash (used in)/from investing activities		(5,151)	(9,734)	2,739	5,000	(6,489)

* Less than RMB1,000

The accompanying notes form an integral part of these financial statements.

	Note	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000	6 months ended 30 June 2013 RMB'000 *Unaudited*	6 months ended 30 June 2014 RMB'000
Cash flows from financing activities						
Proceeds from exercise of warrants		2,773	—	8,977	747	11,000
Proceeds from issue of shares		—	—	70,518	—	—
Proceeds from GDHL subscription of shares	13(a)	201,617	—	—	—	—
Proceeds from bank borrowings		40,000	187,500	139,290	168,611	238,936
Repayment of bank borrowings		(76,136)	(130,236)	(43,716)	(56,918)	(47,777)
Proceeds from issue of notes		—	—	239,225	—	—
Payment on PWGL Settlement Deed		(125,200)	—	—	—	—
Interest paid		(37,036)	(43,148)	(44,729)	(22,132)	(30,461)
Payment of transaction costs related to loans and borrowings		—	(7,928)	(29,240)	(13,150)	(2,086)
Increase in bank balances pledged		—	(14,950)	(15,252)	(1,050)	(78,653)
Net cash from/(used in) financing activities		6,018	(8,762)	325,073	76,108	90,959
Net increase/(decrease) in cash and cash equivalents		14,333	(7,817)	178,902	66,247	57,067
Cash and cash equivalents at beginning of the year/period		29,579	43,465	35,930	35,930	212,406
Effect of exchange rate fluctuations on cash and cash equivalents		(447)	282	(2,426)	(66)	2,503
Cash and cash equivalents at end of the year/period	12	43,465	35,930	212,406	102,111	271,976

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 30 September 2014.

1 DOMICILE AND ACTIVITIES, AND BACKGROUND

1.1 Domicile and activities

The Company is incorporated in Bermuda as an exempt company with limited liability and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The registered address of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at 1105 Jialong International Tower, No.19 Chaoyang Park Road, Chaoyang District, Beijing, People's Republic of China ("PRC") 100125.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are set out in note 32.

1.2 Background

On 30 December 2013, the Company had entered into a framework agreement (the "Framework Agreement") with China Everbright Water Investments Limited ("CEWIL"), pursuant to which the Company proposes to acquire all the investments of CEWIL and China Everbright International Limited (subject to obtaining all relevant regulatory and third party approvals, waivers and consents) in the environmental water sector.

On 2 June 2014, the Company entered into a conditional sale and purchase agreement ("Acquisition Agreement") with China Everbright Water Holdings Limited in respect of the proposed acquisition by the Company of the entire issued and paid-up share capital of the CEWIL comprising one (1) issued and paid-up ordinary share of par value US$1.00 ("Sale Shares") on the terms of the Acquisition Agreement ("Proposed Acquisition").

These financial statements have been prepared for inclusion in the Circular of the Company in connection with the Proposed Acquisition.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

These financial statements are presented in Renminbi (RMB), which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

2.4 Going concern

Management has prepared the financial statements on the assumption that the Group will continue as a going concern taking into consideration the following:

— the Group's ability to generate sufficient cash flows from its operations based on the various strategies that management is presently evaluating to improve operating performance and cash flows of the Group;

— the Group's capital expenditure plan for expansion and upgrading of existing wastewater treatment plants;

— the issue of notes under the S$300,000,000 multicurrency medium term note programme (the "MTN") which was established on 24 July 2013. The undrawn amount under the MTN as at 30 June 2014 is S$250,000,000;

— the continuing support from the Group's bankers through re-financing of existing loans and obtaining additional bank loans; and

— the Group's ability to raise capital via placement of shares or rights issuance.

2.5 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements including the opening IFRS statement of financial position at 1 January 2011 for the purposes of the transition to IFRSs, and have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method, when control is transferred to the Group (see note 3.1(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 3.10(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note 3.3).

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

When the Group loses control over a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign exchange differences arising from such item form part of a net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income, accumulated in the translation reserve.

3.3 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables, and financial receivables arising from service concession arrangements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the statement of cash flows, restricted deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

Service concession arrangements

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction or upgrade services provided. Such financial assets are measured at fair value upon initial recognition. Subsequent to initial recognition, the financial assets are measured at amortised cost.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration (see also note 3.5(ii)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. Financial liabilities for contingent consideration payable in a business combination are recognised at the acquisition date. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities for contingent consideration payable in a business combination are initially recognised at fair value. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise borrowings, and trade and other payables.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

3.4 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Construction in progress is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use.

The estimated useful lives for the current and comparative years are as follows:

Machinery	5 to 10 years
Motor vehicles and office equipment	5 years
Leasehold improvements	4 years
Water supply plant and building	25 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

3.5 Intangible assets and goodwill

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3.1(i).

Subsequent to initial measurement, goodwill is measured at cost less accumulated impairment losses.

(ii) Service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition by reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, less accumulated amortisation and accumulated impairment losses.

(iii) Computer software

Acquired computer software licenses are initially capitalised at cost which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. Capitalised computer software licenses are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Patents and trademarks

Patents and trademarks are measured at cost less any accumulated amortisation and accumulated impairment losses.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(vi) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for the current and comparative years are as follows:

Service concession agreements	25 to 32 years from commencement of operation of the plants
Computer software	5 years
Patents and trademarks	10 to 20 years

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

3.6 Land use rights

Land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line method over the respective lease period of the land use rights, which range from 25 to 50 years.

3.7 Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

3.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.9 Construction contracts-in-progress

Construction contracts-in-progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date (see note 3.13(i)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts-in-progress is presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings and recognised losses. If progress billings and recognised losses exceed costs incurred plus recognised profits, the difference is presented as part of trade and other payables in the statement of financial position.

3.10 Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, and adverse changes in the payment status of borrowers in the Group.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment provision attributable to application of the effective interest method are reflected as a component of interest income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.13 Revenue

(i) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Service concession arrangements

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contract (see above). Operation or service revenue is recognised in the period in which the services are provided by the Group. When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

(iii) Discharge fees from wastewater treatment and recycling

Discharge fees from wastewater treatment and recycling are recognised based on volume of water and wastewater treated and are recognised in the period when the services are rendered.

(iv) Operation income from service concession arrangement

Revenue from operation services are recognised when the related services are rendered.

(v) Finance income from service concession arrangement

Finance income from service concession arrangement represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised in profit or loss using the effective interest method.

3.14 Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

3.15 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.16 Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.17 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.18 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise warrants issued by the Company and share options granted to employees and directors.

3.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the executive committee (the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the executive committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.20 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan for early adoption of these standards.

IFRS 9 *Financial Instruments* (2014)

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 introduces additional changes relating to financial liabilities, hedge accounting and the impairment requirements related to the accounting for expected credit losses on an entry's financial assets and commitments to extend credit. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is in the process of assessing the impact on the financial statements arising from the adoption of the standard.

IFRS 15 *Revenue from Contracts with Customers*

The IASB issued IFRS 15 to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations.

The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The adoption of the standard is not expected to have a significant impact on the Group's results and financial position.

4 CRITICAL JUDGEMENTS, ACCOUNTING ESTIMATES, AND ASSUMPTIONS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes judgements, estimates and assumptions concerning the future. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results may ultimately differ from these estimates.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair values of financial instruments

Where the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs regarding volatility and risk-free rates of return. The valuation of financial instruments is described in note 30.

Financial receivables and/or intangible assets under IFRIC 12 Service Concession Arrangements

The Group recognises the consideration received or receivable in exchange for the construction services as a financial receivable and/or an intangible asset under a service concession arrangement. However, if the 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 the fair value.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, *inter alia*, fair value of the construction services, expected future water treatment volume of the relevant water treatment 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. These estimates, including revenue recognition under the financial asset and intangible asset components are determined by the Group's management based on their experience and assessment on current and future market conditions. The carrying amounts of the intangible assets ("concession rights") and financial receivables at the end of the financial year/period are disclosed in notes 6 and 8 respectively.

Percentage of completion of construction work

The Group recognises contract revenue by reference to the stage of completion of the contract activity at the end of reporting period. Significant assumptions are required to estimate the recoverable variation works that will affect the stage of completion. The Group reviews and revises the estimates in each construction contract as the contract progresses.

Impairment of non-financial assets other than goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment, intangible assets (other than goodwill and concession rights) and land use rights are disclosed in notes 5, 6 and 9.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating unit to which goodwill has been allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and able to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Group's goodwill was disclosed in note 6.

Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of the Group's loans and receivables are disclosed in notes 8, 11 and 12.

Fair value measurement on contingent consideration on business combination

The recognition of the contingent consideration is based on profit forecast relative to the profit target of the acquiree for the twelve months ended 31 December 2013 (see note 31). The key assumption taken into consideration is the performance target of the acquiree.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the consideration transferred for business combination.

5 PROPERTY, PLANT AND EQUIPMENT

	Note	Machinery RMB'000	Motor vehicles and office equipment RMB'000	Leasehold improvements RMB'000	Wastewater supply plant and building RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2011		3,241	11,203	1,506	114,373	38,700	169,023
Additions		—	2,221	—	—	—	2,221
Disposals		—	(203)	—	—	—	(203)
Disposal of subsidiaries	31	(2,637)	(4,127)	(1,506)	(114,373)	—	(122,643)
Write-off		(595)	(36)	—	—	—	(631)
At 31 December 2011		9	9,058	—	—	38,700	47,767
Additions		—	2,373	—	—	7,700	10,073
Disposals		—	(928)	—	—	—	(928)
At 31 December 2012		9	10,503	—	—	46,400	56,912
Additions		590	3,088	354	—	—	4,032
Acquisition of subsidiaries	31	18	2,235	—	—	—	2,253
Disposals		—	(1,399)	—	—	—	(1,399)
At 31 December 2013		617	14,427	354	—	46,400	61,798
Additions		—	1,581	—	—	—	1,581
Disposals		(8)	(1,253)	—	—	—	(1,261)
At 30 June 2014		609	14,755	354	—	46,400	62,118

	Note	Machinery RMB'000	Motor vehicles and office equipment RMB'000	Leasehold improvements RMB'000	Wastewater supply plant and building RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation and impairment losses							
At 1 January 2011		701	7,460	697	114,373	—	123,231
Charge for the year		592	1,342	344	—	—	2,278
Impairment loss		595	36	—	—	—	631
Disposals		—	(202)	—	—	—	(202)
Disposal of subsidiaries	31	(1,290)	(3,468)	(1,041)	(114,373)	—	(120,172)
Write-off		(595)	(36)	—	—	—	(631)
At 31 December 2011		3	5,132	—	—	—	5,135
Charge for the year		1	1,472	—	—	—	1,473
Disposals		—	(558)	—	—	—	(558)
At 31 December 2012		4	6,046	—	—	—	6,050
Charge for the year		31	1,868	74	—	—	1,973
Disposals		—	(997)	—	—	—	(997)
At 31 December 2013		35	6,917	74	—	—	7,026
Charge for the period		26	1,070	44	—	—	1,140
Disposals		—	(911)	—	—	—	(911)
At 30 June 2014		61	7,076	118	—	—	7,255

	Machinery RMB'000	Motor vehicles and office equipment RMB'000	Leasehold improvements RMB'000	Wastewater supply plant and building RMB'000	Construction in progress RMB'000	Total RMB'000
Carrying amounts						
At 1 January 2011	2,540	3,743	809	—	38,700	45,792
At 31 December 2011	6	3,926	—	—	38,700	42,632
At 31 December 2012	5	4,457	—	—	46,400	50,862
At 31 December 2013	582	7,510	280	—	46,400	54,772
At 30 June 2014	548	7,679	236	—	46,400	54,863

Construction in progress

Construction in progress comprises costs, amounting to RMB38,700,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014, incurred for sedimentation pools and aeration tank for the second phase of wastewater treatment plant project under Suzhou Jin Di Water Co., Ltd (苏州金迪水务有限公司) (the "Suzhou Plant"). The costs were incurred during the construction of first phase of the Suzhou Plant, which had commenced operations in financial year ended 30 June 2009.

In addition, construction in progress comprises costs, amounting to RMB7,700,000 as at 31 December 2012 and 2013, and 30 June 2014, incurred for the upgrading phase of wastewater treatment plant project under Xianyang Bai Sheng Shui Purifying Co., Ltd (咸阳百晟水净化有限公司) (the "Xianyang Plant").

Impairment loss

Impairment loss during the year ended 31 December 2011 represented the write-down of machinery and office equipment of other subsidiaries to their recoverable amounts as the operations of these subsidiaries were taken over by the municipal government.

6 INTANGIBLE ASSETS

	Concession rights RMB'000	Goodwill RMB'000	Patents and trademarks RMB'000	Computer software RMB'000	Total RMB'000
Cost					
At 1 January 2011	381,741	—	—	—	381,741
Additions	—	—	—	302	302
At 31 December 2011	381,741	—	—	302	382,043
Additions	7,489	—	—	645	8,134
At 31 December 2012	389,230	—	—	947	390,177
Additions	—	—	—	677	677
Acquisition of subsidiaries (note 31)	—	90,047	27,216	—	117,263
Disposals	(229,933)	—	—	—	(229,933)
At 31 December 2013	159,297	90,047	27,216	1,624	278,184
Additions	7,744	—	—	—	7,744
At 30 June 2014	167,041	90,047	27,216	1,624	285,928
Accumulated amortisation and impairment losses					
At 1 January 2011	258,538	—	—	—	258,538
Amortisation for the year	3,684	—	—	12	3,696
At 31 December 2011	262,222	—	—	12	262,234
Amortisation for the year	3,738	—	—	132	3,870
At 31 December 2012	265,960	—	—	144	266,104
Amortisation for the year	3,950	—	1,809	255	6,014
Disposals	(229,932)	—	—	—	(229,932)
At 31 December 2013	39,978	—	1,809	399	42,186
Amortisation for the period	2,244	—	1,811	162	4,217
At 30 June 2014	42,222	—	3,620	561	46,403
Carrying amounts					
At 1 January 2011	123,203	—	—	—	123,203
At 31 December 2011	119,519	—	—	290	119,809
At 31 December 2012	123,270	—	—	803	124,073
At 31 December 2013	119,319	90,047	25,407	1,225	235,998
At 30 June 2014	124,819	90,047	23,596	1,063	239,525

Service concession arrangements

Concession rights relate to the Group's service concession arrangements. The significant aspects of the service concession arrangements are summarised as follows:

(a) The arrangements are concession arrangements for water/wastewater treatment plants with various municipal governments in the PRC under IFRIC 12 *Service Concession Arrangements*.

(b) The intangible assets of concession rights arose from two water/wastewater treatment plants located in various cities in the PRC. For these arrangements with concession years ranging between 25 years to 32 years, the Group (the operator) receives the right to charge users a fee for using the services which the grantor collects and pays to the operator at agreed fees.

(c) All the water/wastewater treatment agreements state the rights and obligations for the grantor and operator as follows:

 (i) The operator has the obligation to treat the required amount of water/wastewater and also to ensure the treated water fulfills the standard quality requirement of the grantor.

 (ii) The infrastructure including the plant and equipment, "know-how", operations manual, hand-over report, design of infrastructure and related documents, for the wastewater treatment plant will be transferred over to the grantor or any grantor appointed agencies at the end of the concession period.

 (iii) The arrangement is terminated only when the other party breaches the contract or due to unforeseeable circumstances.

 (iv) The operator has the obligation to maintain and restore the water/wastewater plant to its operational condition upon transferring to the grantor at the end of the concession period.

(d) During the year ended 31 December 2013, the service concession rights held by the Group for two water/wastewater treatment plants under Suqian City Cheng Bei Wastewater Treatment Co., Ltd (宿迁市城北污水处理发展有限公司) and Suqian City Cheng Bei Water Treatment Co., Ltd, (宿迁市城北水务发展有限公司) (the "Suqian plants") were disposed to third parties for a total consideration of RMB40,672,000. The gain arising from the disposal of the service concession rights, net of related expenses, amounted to RMB21,820,000 (note 21).

(e) The wastewater treatment plants with intangible assets amounting to RMB119,519,000, RMB115,824,000, RMB112,140,000 and RMB117,772,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014 were pledged to secure the loans taken up by the Group (note 15).

(f) The key management assumptions for the value-in-use calculations are those regarding the discount rates and expected cash flows generated from the concession arrangements during the concession period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the cash generating units. Expected cash flows are based on past experience, terms of concession arrangement and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by management using an average discount rate of 8.80%, 7.50%, 8.20% and 8.60% as at 31 December 2011, 2012 and 2013, and 30 June 2014, respectively.

Goodwill

Impairment testing for cash-generating units containing goodwill

All wastewater treatment plants, except for a water treatment plant located in Lianyungang which is a Transfer-Operate-Transfer project, are individually a single cash-generating unit ("CGU"). For impairment assessment purposes, these CGUs are grouped together into a single group of assets and goodwill is allocated to this group of assets.

The goodwill was assessed for impairment as at the reporting date. The recoverable amount of the CGU is determined based on value-in-use calculations using cash flow projections based on financial budgets approved by management covering the service concession periods of the CGUs. The key assumptions for the value-in-use calculations are as follows:

	31 December 2013	**30 June 2014**
1. Pre-tax discount rate	8.20%	8.60%
2. Inflation rate	4.60%	4.10%

These assumptions were used for the analysis of the CGU. Management recognises the speed of technological change and the possibility of new entrants that can have a significant impact on the growth rate assumptions. The effect of new entrants is not expected to have a significant adverse impact on the forecasts included in the budget. The budgeted gross margin is based on past performance and expectations of market development. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of goodwill would not result in an impact on the carrying amount of goodwill.

Based on management's assessment of the recoverable amounts of the CGU, no impairment on goodwill was required as at 31 December 2013 and 30 June 2014.

7 AVAILABLE-FOR-SALE INVESTMENT

	RMB'000
As at 1 January 2011	69,845
Less: Allowance for impairment loss	(69,845)
As at 31 December 2011, 2012 and 2013, and 30 June 2014	—

During the year ended 31 December 2011, the management made a full impairment of RMB69,845,000 based on the estimated recoverable amounts of the available-for-sale investments.

8 FINANCIAL RECEIVABLES

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Non-current	1,606,929	1,593,029	1,904,149	1,917,250
Current	124,240	138,719	145,946	174,184
	1,731,169	1,731,748	2,050,095	2,091,434

The significant aspects of the service concession arrangements are summarised as follows:

(a) These water/wastewater treatment plants which are located in 8 different cities in the PRC have concession years ranging between 25 years to 30 years, of which the Group has a contractual right under concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants.

The rights and obligations of these water/wastewater treatment arrangements are the same as those disclosed in note 6.

(b) The wastewater treatment plants with financial receivables amounting to RMB518,202,000, RMB502,570,000, RMB278,048,000 and RMB527,722,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014 respectively, are pledged to secure the loans taken up by the Group (note 15).

9 LAND USE RIGHTS

	RMB'000
Cost	
At 1 January 2011	79,603
Additions	5,265
Disposal of a subsidiary	(27,206)
At 31 December 2011 and 2012	57,662
Disposals	(1,780)
At 31 December 2013 and 30 June 2014	55,882
Accumulated depreciation	
At 1 January 2011	8,902
Additions	3,155
Disposal of a subsidiary	(3,137)
At 31 December 2011	8,920
Additions	1,997
At 31 December 2012	10,917
Additions	2,019
Disposals	(1,780)
At 31 December 2013	11,156
Additions	1,009
At 30 June 2014	12,165
Carrying amounts	
At 1 January 2011	70,701
At 31 December 2011	48,742
At 31 December 2012	46,745
At 31 December 2013	44,726
At 30 June 2014	43,717

10 INVENTORIES

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
At cost:				
Raw materials and consumables	866	984	6,334	10,534

11 TRADE AND OTHER RECEIVABLES

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Non-current				
Other receivables	—	—	17,533	14,105
Current				
Trade receivables	31,416	47,382	80,692	84,097
Other receivables	13,493	7,343	40,542	26,218
Less: Allowance for impairment loss	—	(3,883)	(3,883)	(4,367)
	13,493	3,460	36,659	21,851
Sundry deposits	2,132	1,888	2,279	4,558
	47,041	52,730	119,630	110,506
Prepayments	5,172	16,134	14,292	20,993
Advances to suppliers	6,665	3,974	28,419	—
	58,878	72,838	162,341	131,499
Total	58,878	72,838	179,874	145,604

Trade receivables are non-interest bearing and are generally on 30 to 90 days terms.

Included in other receivables are the following:

- consideration receivable of RMB950,000 and RMB1,350,000 as at 31 December 2011 and 31 December 2012, respectively, from a third party arising from the disposal of a subsidiary in 2011; and

- consideration receivable of RMB30,659,000 and RMB29,275,000 as at 31 December 2013 and 30 June 2014 due from third parties arising from disposals of service concession rights on Suqian Plants (note 6).

Included in prepayments is an advance made to a financial institution amounting to RMB12,000,000 as at 31 December 2012 and 2013, and 30 June 2014 for the final instalment for a loan which matures on 10 June 2017.

On 31 May 2011, the Group entered into an arrangement with Dongguan Kechuang Future Energy Technology Development Co. Ltd ("Dongguan Kechuang") to extinguish the amounts owing to the Group by Dongguan Kechuang and the amounts owing to Dongguan Kechuang by the Group. The resulting gain of RMB19,435,000 on the extinguishment of account balances was recognised in profit or loss in 2011 (note 21).

The movement in the allowance for impairment loss is as follows:

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
At the beginning of the year/period	—	—	3,883	3,883
Recognised during the year/period	—	3,883	—	484
At the end of the year/period	—	3,883	3,883	4,367

12 CASH AND CASH EQUIVALENTS

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Cash on hand and bank balances	43,465	35,930	212,406	271,976
Short-term deposits	—	14,950	30,202	108,855
	43,465	50,880	242,608	380,831

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprised:

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Cash and cash equivalents	43,465	50,880	242,608	380,831
Less: Restricted bank balances	—	(14,950)	(30,202)	(108,855)
	43,465	35,930	212,406	271,976

The restricted bank balances relate to bank deposits pledged to banks for borrowings (note 15) and bill payables (note 17).

13 SHARE CAPITAL

	Note	No. of ordinary shares ('000)	RMB'000
Authorised share capital:			
At 1 January 2011, 31 December 2011, 2012 and 2013		6,000,000	672,146
Shares consolidation	(d)	(5,400,000)	—
At 30 June 2014		600,000	672,146
Ordinary shares of HK$1.00 each (HK$0.10 before shares consolidation) each, issued and fully paid:			
At 1 January 2011		1,895,302	189,876
Giant Delight Holdings Limited Subscription	(a)	1,202,617	100,848
Precious Wise Group Limited Settlement	(b)	1,042,023	87,498
Issue of ordinary shares for exercise of warrants before shares consolidation	18	21,883	1,818
At 31 December 2011 and 31 December 2012		4,161,825	380,040
Issue of ordinary shares	(c)	293,617	23,363
Issue of shares related to business combination before shares consolidation	31	360,000	28,695
Issue of ordinary shares for exercise of warrants before shares consolidation	18	47,892	3,800
At 31 December 2013		4,863,334	435,898
Issue of shares related to business combination before shares consolidation	31	180,000	14,386
Issue of ordinary shares for exercise of warrants before shares consolidation	18	47,692	3,780
Shares consolidation	(d)	(4,581,924)	—
Issue of ordinary shares for exercise of warrants after shares consolidation	18	1,381	1,093
At 30 June 2014		510,483	455,157

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per ordinary share at meetings. All shares rank equally with regard to the Company's residual assets.

(a) **Giant Delight Holdings Limited ("GDHL") Subscription**

Pursuant to a subscription agreement dated 11 December 2009, the Company entered into another subscription agreement with GDHL on 28 February 2011 and issued:

- 1,202,616,894 ordinary shares ("GD Shares"), at an issue price of S$0.04, representing a discount of approximately 11.1% to the volume weighted average traded price of S$0.045 per ordinary share for a consideration of approximately S$48,105,000 (RMB201,617,000); and

- 57,692,402 free, unlisted and detachable warrants ("GD Warrants") of the Company. The GD Warrants can be exercised at S$0.04 each for one ordinary share of the Company.

The above GD Shares and GD Warrants were issued on 27 April 2011.

(b) **Precious Wise Group Limited ("PWGL") Settlement**

The Company had on 11 December 2009 entered into a Settlement Deed (the "PWGL Settlement") with PWGL and Datasino Group Limited, a related party of PWGL, ("Datasino", collectively, the "Loan Lenders") to effect a full and final settlement of all the Group's outstanding loans with the Loan Lenders.

Pursuant to the terms of the PWGL Settlement:

- PWGL had received a cash payment of HK$140,511,961 (RMB123,060,000);

- Datasino had received a cash payment of HK$50,000,000 (RMB43,790,000), which was equivalent to the principal amount of the outstanding loan;

- the Company had issued convertible bonds (the "PWGL Notes") to PWGL with a principal amount of HK$222,238,256 (RMB194,636,000). The PWGL Notes bore interest at a rate of 1% per annum and in the event that the interest were not paid, the holder (the "PWGL Noteholder(s)") of the PWGL Notes had the right to receive new shares in the capital of the Company in lieu of such interest. The principal amount due under the PWGL Notes were redeemable at 110% of the principal amount at the end of the period of the PWGL Notes and in the event that such amount were not paid to PWGL Noteholder(s), default interest at the rate of 15% per annum would be levied on the unpaid amount of the PWGL Redemption Amount. The PWGL notes were convertible into ordinary share of the Company at a price of S$0.04 per share; and

- the Company had issued 31,631,598 free, unlisted, detachable warrants (the "PWGL Warrants") to PWGL. The warrants can be exercised at S$0.025 each for one ordinary share of the Company.

In 2011, the Group had collectively entered into a second deed of settlement to effect a full and final settlement of all the Group's outstanding payment obligations to PWGL and Datasino as follows:

- cash payment to PWGL and Datasino made at an agreed settlement amount of HK$89,271,000 (RMB74,500,000) and HK$60,729,000 (RMB50,700,000) respectively;
- 1,042,022,739 new ordinary shares of the Company issued to PWGL; and
- 31,631,598 free, unlisted and detachable warrants of the Company issued to PWGL. The warrants can be exercised at S$0.04 each for one ordinary share of the Company.

The financial impact of the extinguishment of the debts is a loss of RMB70,530,000 as disclosed in note 23.

(c) **Issue of ordinary shares**

On 1 August 2013, the Company issued 293,617,000 ordinary shares of par value of HK$0.10 each for a net cash consideration of S$14,680,850 (approximately RMB70,519,000).

(d) **Shares consolidation**

On 27 May 2014, the Company consolidated every ten (10) existing ordinary shares of par value of HK$0.10 each in the capital of the Company into one (1) ordinary share of the Company of par value of HK$1.00 each.

14 RESERVES

	31 December 2011 RMB'000	**31 December 2012 RMB'000**	**31 December 2013 RMB'000**	**30 June 2014 RMB'000**
Share premium	1,168,346	1,168,346	1,276,787	1,419,312
Foreign currency translation reserve	33	22	22	22
Statutory reserve	—	—	77	77
Share option reserve	—	—	6,401	32,892
Accumulated losses	(404,007)	(394,369)	(366,761)	(463,674)
	764,372	773,999	916,526	988,629

(a) **Share premium**

The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda.

(b) **Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(c) **Statutory reserve**

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, wholly-owned subsidiaries are required to make appropriation to a statutory reserve. At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the statutory reserve until the cumulative total of the reserve reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(d) **Share option reserve**

This represents the equity-settled share options granted to employees (note 19). The reserve comprises the cumulative value of employee services received for the issue of share options.

15 BORROWINGS

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Non-current				
Bank borrowings	387,779	365,873	509,107	641,618
Notes payable	—	—	231,901	242,398
	387,779	365,873	741,008	884,016
Current				
Bank borrowings	76,836	149,062	125,392	183,372
Entrusted loans	40,000	40,000	—	—
	116,836	189,062	125,392	183,372
Total	504,615	554,935	866,400	1,067,388
Repayable:				
- within 1 year	116,836	189,062	125,392	183,372
- after 1 year but within 5 years	303,762	349,762	634,832	737,345
- after 5 years	84,017	16,111	106,176	146,671
	504,615	554,935	866,400	1,067,388

Terms and debt repayment schedule

Terms and conditions of outstanding borrowings are as follows:

	Currency	Year of maturity	Nominal interest rate per annum	Face value RMB'000	Carrying amount RMB'000
31 December 2011					
Secured bank borrowings					
- floating interest rate	RMB	2013 to 2019	90% to 100% of PBOC rate*	110,265	110,265
Unsecured bank borrowings					
- floating interest rate	RMB	2017 to 2018	99% to 130% of PBOC rate*	354,350	354,350
Unsecured entrusted loans					
- fixed interest rate	RMB	2012	15.00% to 18.00%	40,000	40,000
				504,615	504,615
31 December 2012					
Secured bank borrowings					
- floating interest rate	RMB	2013 to 2019	90% to 100% of PBOC rate*	82,829	82,829
- fixed interest rate	RMB	2017	6.65%	60,000	49,233
Unsecured bank borrowings					
- floating interest rate	RMB	2014 to 2021	99% to 130% of PBOC rate*	385,050	382,873
Unsecured entrusted loans					
- fixed interest rate	RMB	2013	15.00% to 24.00%	40,000	40,000
				567,879	554,935

	Currency	Year of maturity	Nominal interest rate per annum	Face value RMB'000	Carrying amount RMB'000
31 December 2013					
Secured bank borrowings					
- floating interest rate	RMB	2017 to 2019	90% to 110% of PBOC rate*	93,333	91,721
- fixed interest rate	RMB	2017	6.65%	42,000	38,313
Unsecured bank borrowings					
-floating interest rate	RMB	2014 to 2023	99% to 130% of PBOC rate*	516,720	504,465
Unsecured notes					
- fixed interest rate	SGD	2015	7.50%	239,225	231,901
				891,278	866,400
30 June 2014					
Secured bank borrowings					
- floating interest rate	RMB	2017 to 2020	90% to 130% of PBOC rate*	578,556	572,501
-fixed interest rate	RMB	2017	6.65%	36,000	32,849
Unsecured bank borrowings					
- floating interest rate	RMB	2015 to 2023	100% to 130% of PBOC rate*	159,720	150,704
-fixed interest rate	RMB	2015	2.89%	68,936	68,936
Unsecured notes					
- fixed interest rate	SGD	2015	7.50%	247,345	242,398
				1,090,557	1,067,388

* PBOC rate denotes People's Bank of China base lending rates. The prevailing rates range from 6.10% to 7.05% as at 31 December 2011 and 5.60% to 6.55% as at 31 December 2012 and 2013, and 30 June 2014, respectively.

Loan covenants

The entrusted loans outstanding as at 31 December 2012 and 2013 were granted by third parties, with financial institutions acting as agents, to finance the working capital requirements of the Group.

The secured bank borrowings of the Group were secured over intangible assets and financial receivables arising from service concession arrangements as disclosed in notes 6 and 8 respectively.

The following secured bank borrowings of the Group were guaranteed by the following parties as follows:

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
A former subsidiary of the Group — Golden Idea Bio-Engineering (Dongguan) Co., Ltd.	101,350	80,550	70,350	64,100
A corporate shareholder of the Company	—	—	11,500	2,500
Third party	—	16,500	—	—
The controlling shareholder and his spouse	—	49,233	38,313	43,769
	101,350	146,283	120,163	110,369

The fixed rate secured loans of RMB49,233,000, RMB38,313,000 and RMB32,849,000 as at 31 December 2012 and 2013 and 30 June 2014, respectively, are secured by the legal titles of certain assets of a water treatment plant under Suzhou Jin Di Water Co., Ltd (苏州金迪水务有限公司) (Refer to note 8 for disclosure on related financial receivables).

Subsidiaries, with bank borrowings totalling RMB301,320,000, RMB293,142,000, RMB219,727,000 and RMB206,896,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014, respectively, are restricted from declaring or paying dividends to shareholders until the loans are fully repaid. The subsidiaries do not have distributable reserves as at 31 December 2011, 2012 and 2013, and 30 June 2014.

Receipts from trade receivables from the operations of certain wastewater treatment plants are to be processed through the financial institutions. The bank borrowings of these subsidiaries amounted to RMB336,950,000, RMB309,050,000, RMB247,370,000 and RMB236,396,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014, respectively.

The wastewater treatment plant of subsidiary, with bank borrowings totalling RMB285,000,000, RMB245,000,000, RMB166,000,000 and RMB166,000,000 as at 31 December 2011, 2012 and 2013, and 30 June 2014, respectively, are restricted to be pledged or assigned to third parties.

As at 31 December 2011 and 2012, the daily bank balances for a subsidiary, with bank borrowing of RMB33,820,000 and RMB15,940,000 respectively, shall not be less than RMB250,000. The bank loans were fully repaid in 2013.

Unsecured fixed rate notes

On 24 July 2013, the Group has established a S$300 million multicurrency medium term note programme (the "MTN"). As at 30 June 2014, S$50 million of unsecured fixed rate notes were issued under the MTN. The unsecured fixed rate notes payable are redeemable at their principal amount on the maturity date in August 2015.

16 DEFERRED TAX LIABILITIES

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Deferred tax liabilities	203,668	216,424	232,376	245,746

Movement in temporary differences during the year/period

	At 1 January 2011 RMB'000	Recognised in profit or loss (note 24) RMB'000	At 31 December 2011 RMB'000	Recognised in profit or loss (note 24) RMB'000	At 31 December 2012 RMB'000
Service concession arrangements	188,162	15,506	203,668	12,756	216,424

	At 1 January 2013 RMB'000	Recognised in profit or loss (note 24) RMB'000	Acquisition of subsidiaries (note 31) RMB'000	At 31 December 2013 RMB'000	Recognised in profit or loss (note 24) RMB'000	At 30 June 2014 RMB'000
Service concession arrangements	216,424	9,652	—	226,076	13,370	239,446
Intangible assets	—	—	6,300	6,300	—	6,300
	216,424	9,652	6,300	232,376	13,370	245,746

Unrecognised deferred tax liabilities

At the reporting dates, deferred tax liabilities for temporary differences related to investments in subsidiaries were not recognised because the Company controls whether the liabilities will be incurred and it is satisfied that they will not be incurred in the foreseeable future.

The temporary differences and related deferred tax liabilities at the reporting dates are as follows:

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Temporary differences	30,785	39,115	40,603	42,704
Deferred tax liabilities	3,079	3,912	4,060	4,270

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Tax losses expiring within 1 year	—	3,520	12,360	12,360
Tax losses expiring after 1 year but within 5 years	62,307	77,236	87,714	107,310
	62,307	80,756	100,074	119,670

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the PRC and expire in 5 years. Tax losses, amounting to RMB3,520,000, expired during the financial year ended 31 December 2013.

17 TRADE AND OTHER PAYABLES

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Trade payables	360	5,985	4,863	6,576
Construction payables for service concession arrangements	185,166	136,753	213,266	125,543
Amounts due to former shareholder of a subsidiary	—	—	10	1,996
Bill payables	—	—	—	37,000
Accrued expenses	40	2,823	2,615	889
Accrued interest on borrowings	82	97	7,558	8,800
Other taxes payable	176	289	4,669	794
Other creditors	—	—	3,310	25,748
	185,824	145,947	236,291	207,346
Deferred income	—	1,100	—	—
	185,824	147,047	236,291	207,346

In 2011, an arrangement was reached with a supplier on 31 May 2011 to extinguish the amounts owing from/to the supplier. The resulting gain on the extinguishment of account balances was recognised in profit or loss (note 21).

As at 30 June 2014, other creditors comprise a guarantee deposit of RMB25,259,000 (31 December 2011, 2012 and 2013: Nil) by a director of a subsidiary.

The amounts due to a former shareholder of a subsidiary are non-trade in nature, unsecured, interest-free and repayable on demand.

Bill payables are interest-free and secured by bank deposits (note 12).

18 OTHER FINANCIAL LIABILITIES

	Note	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Non-current					
Financial liabilities carried at fair value through profit or loss					
- Cross-currency swap	(a)	—	—	4,597	1,405
Current					
Financial liabilities carried at fair value through profit or loss					
- Warrants	(b)	7,236	5,891	22,410	795
- Contingent consideration payable	(c)	—	—	93,011	—
		7,236	5,891	115,421	795
Total		7,236	5,891	120,018	2,200

(a) Cross-currency swap

On 19 September 2013, the Group entered into a cross-currency swap with a financial institution. The swap will be settled in August 2015, where the Group will pay SGD50,000,000 and receive an agreed amount of USD40,176,778.

	31 December 2013 RMB'000	30 June 2014 RMB'000
At the beginning of the year/period	—	4,597
Net change in fair value	4,597	(3,192)
At the end of the year/period	4,597	1,405

(b) Warrants

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Financial liabilities, warrants				
At the beginning of the year/period	6,856	7,236	5,891	22,410
Issue of warrants	10,774	—	—	—
Exercise of warrants	(3,890)	—	(7,144)	(31,076)
Net changes in fair value	(6,504)	(1,345)	23,663	9,461
At the end of the year/period	7,236	5,891	22,410	795

	Note	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
It consists of the following:					
- CB Warrants	(i)	2,121	2,383	6,575	795
- PWGL Warrants	(ii)	1,812	1,242	—	—
- GDHL Warrants	(iii)	3,303	2,266	15,835	—
		7,236	5,891	22,410	795

(i) In prior years, the Company issued and defaulted on the convertible bonds. As part of the settlement agreed with the convertible bondholders ("CB Holders"), 75,198,000 warrants ("CB Warrants") were issued to the CB Holders. Each warrant can be exercised at an exercise price of S$0.025 for one ordinary share at par value of HK$0.10 each anytime. The exercise period of the warrants is from 26 April 2010 to 26 April 2015.

(ii) In 2011, 31,631,598 warrants ("PWGL Warrants") were issued to PWGL as part of the PWGL settlement. Each warrant can be exercised at an exercise price of S$0.04 for one ordinary share at par value of HK$0.10 each anytime. The exercise period of the warrants is from 27 April 2011 to 27 April 2014.

(iii) In 2011, 57,692,402 warrants ("GD Warrants") were issued to GDHL as part of GDHL subscription. Each warrant can be exercised at an exercise price of S$0.04 for one ordinary share at par value of HK$0.10 each anytime. The exercise period of the warrants is from 27 April 2011 to 27 April 2014.

(iv) The CB Holders had exercised its rights to convert the CB Warrants into ordinary shares of the Company at the exercise price of S$0.025 for each ordinary share as follows:

No of warrants exercised	Date of exercise	No of ordinary shares	Date of issue and allotment
1,240,610	10 March 2011	1,240,610	23 March 2011
4,341,934	5 December 2011	4,341,934	12 December 2011
16,300,370	14 December 2011	16,300,370	29 December 2011
5,906,070	7 February 2013	5,906,070	18 February 2013
354,460	19 April 2013	354,460	25 April 2013

(v) On 18 October 2013, the PWGL Warrants holder had exercised its rights to convert all PWGL Warrants into 31,631,598 ordinary shares of the Company (the "31,631,598 Ordinary Shares") at the exercise price of S$0.04 for each ordinary share. The 31,631,598 Ordinary Shares had been issued and allotted on 28 October 2013.

(vi) The GDHL Warrants holder had exercise its rights to convert the GDHL Warrants into ordinary shares of the Company at the exercise price of S$0.04 for each ordinary shares as follows:

No of warrants exercised	Date of exercise	No of ordinary shares	Date of issue and allotment
8,000,000	30 October 2013	8,000,000	7 November 2013
2,000,000	29 November 2013	2,000,000	6 December 2013
47,692,402	19 March 2014	47,692,402	24 March 2014

(vii) On 30 May 2014, the CB Holders had exercised its rights to convert 1,380,717 warrants into 1,380,717 ordinary shares of the Company (the "1,380,717 Ordinary Shares") at the exercise price of S$0.25 for each ordinary share. The 1,380,717 Ordinary Shares had been issued and allotted on 3 June 2014.

The number of shares and exercise prices stated in notes (i) to (vi) were prior to the shares consolidation exercise (note 13(d)).

Fair value of warrants

The fair value of the warrants is estimated at the respective reporting dates, using the Binomial Valuation model. The following table lists the inputs to the option pricing model:

	CB Warrants	PWGL Warrants	GD Warrants
31 December 2011			
Number of warrants outstanding	22,702,326	31,631,598	57,692,402
Risk-free rate (% p.a.)	0.46%	0.38%	0.38%
Exercise price (S$)	S$0.025	S$0.040	S$0.040
Underlying share price (S$)	S$0.038	S$0.038	S$0.038
Years to maturity (years)	3.5 years	2.5 years	2.5 years
Dividend yield (% p.a.)	—	—	—
Volatility (%)	52.4%	54.9%	54.9%
31 December 2012			
Number of warrants outstanding	22,702,326	31,631,598	57,692,402
Risk-free rate (% p.a.)	0.28%	0.27%	0.27%
Exercise price (S$)	S$0.025	S$0.040	S$0.040
Underlying share price (S$)	S$0.044	S$0.044	S$0.044
Years to maturity (years)	2.5 years	1.5 years	1.5 years
Dividend yield (% p.a.)	—	—	—
Volatility (%)	36.6%	28.1%	28.1%
31 December 2013			
Number of warrants outstanding	16,441,796	—	47,692,402
Risk-free rate (% p.a.)	0.32%	—	0.29%
Exercise price (S$)	S$0.025	—	S$0.040
Underlying share price (S$)	S$0.108	—	S$0.108
Years to maturity (years)	1.5 years	—	0.5 years
Dividend yield (% p.a.)	—	—	—
Volatility (%)	63.3%	—	116.9%
30 June 2014			
Number of warrants outstanding*	263,462	—	—
Risk-free rate (% p.a.)	0.33%	—	—
Exercise price (S$)*	S$0.25	—	—
Underlying share price (S$)*	S$0.86	—	—
Years to maturity (years)	1 year	—	—
Dividend yield (% p.a.)	—	—	—
Volatility (%)	62.8%	—	—

* Refer to shares consolidation (note 13(d)).

(c) Contingent consideration payable

The contingent consideration payable relates to the acquisition of subsidiaries on 23 May 2013 (note 31).

The movement in fair value are as follows:

	31 December 2013 RMB'000	30 June 2014 RMB'000
At the beginning of the year/period	—	93,011
Initial measurement	38,830	—
Changes in fair value	54,181	26,697
Issue of shares consideration	—	(119,708)
At the end of the year/period	93,011	—

19 SHARE-BASED PAYMENT ARRANGEMENTS

Employee share option scheme

On 27 October 2011, the Group established an employee share option scheme (the "Scheme") that entitles key management personnel and controlling shareholders to purchase shares in the Company at an exercise price determined by the committee established to administer this share option scheme ("ESOS Committee").

Pursuant to the Listing Manual of Singapore Exchange Securities Trading Limited ("Listing Manual"):

(i) The aggregate number of shares in respect of which options may be granted on any date under the Scheme, when added to the number of shares issued and issuable in respect of all options granted under the Scheme, shall not exceed 15% of the total number of issued shares of the Company excluding treasury shares from time to time.

(ii) The aggregate number of shares available to controlling shareholders and their associates must not exceed 25% of the shares available under the Scheme and the number of shares available to each controlling shareholder and his associate must not exceed 10% of the shares available under the Scheme.

(iii) The aggregate number of shares available to directors and employees of the Company and its subsidiaries must not exceed 20% of the shares available under the Scheme.

Under the Scheme, the exercise price of options ("Exercise Price") granted will be determined by the ESOS Committee, in its absolute discretion, on the grant date at:

(i) a price equal to the market price; or

(ii) a price which is set at a discount to the market price, provided that the maximum discount shall not exceed 20% of the market price as required by the rules prescribed by the Listing Manual; and the shareholders of the Company in general meeting shall have authorised, in a separate resolution, the making of offers and grants of options under the Scheme at a discount not exceeding the maximum discount as aforesaid.

All options granted are to be settled by physical delivery of shares.

Options granted under the Scheme shall, to the extent unexercised, immediately lapse and become null and void and the option holder shall have no claim against the Company:

(i) upon the option holder (excluding the controlling shareholder) ceasing to be in the employment of the Group, subject to other rules with the absolute discretion of the ESOS Committee; or

(ii) upon the bankruptcy of the option holder or the happening of any other event which result in his being deprived of the legal or beneficial ownership of such option; or

(iii) in the event of misconduct on the part of the option holder, as determined by the ESOS Committee at its absolute discretion.

On 15 November 2013, the Group granted 365,086,178 share options to key management personnel and a controlling shareholder. The exercise period for the granted share options is from 16 November 2014 to 15 November 2023.

Measurement of fair values

The fair value of the employee share option scheme was measured based on Binomial Option Pricing Model. Expected volatility is estimated by considering historical volatility of the Company's share price over the period commensurate with the expected term.

The variables used in estimating the fair value of the options under the Scheme are as follows:

	Employee share option scheme	
	Controlling shareholder	**Key management personnel**
Share options granted*	6,211,773	30,296,844
Share price at grant date*	S$0.65	S$0.65
Exercise price*	S$0.64	S$0.64
Fair value as at grant date*	S$0.40	S$0.30
Expected volatility	64.72%	64.72%
Risk free rate	2.29%	2.29%
Early exercise multiple	2.80	2.80
Exit rate per annum	—	15.22%

* Refer to shares consolidation (note 13 (d)).

Reconciliation of outstanding share options

The number and weighted average exercise price of share options under share option programme is as follows:

	Note	**Weighted average exercise price**	**Number of options**
Outstanding at 1 January 2013			—
Granted during the year		S$0.064	365,086,178
Outstanding at 31 December 2013			365,086,178
Shares consolidation	13(d)		(328,577,561)
Outstanding at 30 June 2014		S$0.640	36,508,617
Exercisable at 31 December 2013 and 30 June 2014			—

The options outstanding at 31 December 2013 and 30 June 2014 have a contractual life of 10 years.

20 REVENUE

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Construction services from service concession arrangement	96,274	30,557	331,004	123,857	67,546
Finance income from service concession arrangement	104,192	106,676	133,878	63,868	52,984
Operation income from service concession arrangement	41,691	45,988	49,530	23,248	23,361
Construction contract revenue	—	—	43,549	1,174	14,757
Discharge fees from wastewater treatment and recycling	26,317	20,580	17,728	8,056	8,034
	268,474	203,801	575,689	220,203	166,682

21 OTHER INCOME

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Net foreign exchange gain	2,601	25	3,628	—	—
Gain on disposal of service concession rights	—	—	21,820	21,820	—
Gain on disposal of property, plant and equipment	43	280	—	—	151
Government grant	6,462	12,848	1,599	1,502	580
Sundry income	2,678	1,538	2,172	70	3,951
Fair value gain on contingent consideration payable	—	—	—	3,932	—
Fair value gain on cross-currency swap	—	—	—	—	3,192
Net fair value gain on warrants	6,504	1,345	—	1,188	—
Net gain on disposal of subsidiaries	6,095	—	—	—	—
Net gain on extinguishment of account balances	19,435	—	—	—	—
	43,818	16,036	29,219	28,512	7,874

22 NET FINANCE COSTS

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Finance income					
Interest income on bank deposits	(159)	(123)	(1,204)	(290)	(1,227)
Finance costs					
Interest expense on:					
- bank borrowings	37,118	43,163	48,779	22,117	22,533
- notes payable	—	—	3,411	—	9,170
	37,118	43,163	52,190	22,117	31,703
Amortisation of transaction costs capitalised	—	984	5,906	1,370	3,795
	37,118	44,147	58,096	23,487	35,498
Net finance costs	36,959	44,024	56,892	23,197	34,271

23 (LOSS)/PROFIT BEFORE TAX

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Included in cost of sales:					
- cost of inventories	5,742	7,442	145,242	4,411	34,568
- amortisation of intangible assets	3,684	3,738	5,759	1,958	4,055
- construction services cost written off	76,293	—	—	—	—

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Included in administrative expenses:					
- amortisation of land use rights	3,155	1,997	2,019	1,009	1,009
- amortisation of intangible assets	12	132	255	110	162
- depreciation on property, plant and equipment	2,278	1,473	1,973	782	1,140
- loss on disposal of property, plant and equipment	—	—	33	106	—
- rental expense on operating lease	2,871	3,555	3,306	1,607	3,527
Included in other operating expenses:					
- bad debts written off	—	2,000	—	—	1,732
- foreign exchange loss, net	—	—	—	7,422	6,444
- impairment loss on:					
- other receivables	—	3,883	—	—	484
- property, plant and equipment	631	—	—	—	—
- available-for-sale investments	69,845	—	—	—	—
- loss on liquidation of subsidiaries	—	22	—	—	—
- loss on extinguishment of debts	70,530	—	—	—	—
- fair value loss on warrants	—	—	23,663	—	9,461
- fair value loss on cross-currency swap	—	—	4,597	—	—
- fair value loss on contingent consideration payable	—	—	54,181	—	26,697
Staff costs:					
- wages and salaries	21,382	21,202	31,313	22,866	16,494
- defined contribution plans	1,675	3,623	3,784	1,905	2,104
- welfare and other benefits	2,548	2,636	1,401	308	1,672
- equity-settled share-based payment transactions	—	—	6,401	—	26,491
- contract termination fees	322	619	453	394	20
	25,927	28,080	43,352	25,473	46,781

24 TAX EXPENSE

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
Current tax expense					
Current year	260	850	10,836	1,153	745
Over provided in prior years	(304)	(145)	(49)	—	—
	(44)	705	10,787	1,153	745
Deferred tax expense					
Movements in temporary differences	15,506	12,756	9,652	3,071	13,370
Total tax expense	15,462	13,461	20,439	4,224	14,115

The Group's tax assessable profits were entirely derived by the operations of the Group's subsidiaries in the PRC.

Reconciliation of effective tax rate

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				Unaudited	
(Loss)/Profit before tax	(139,251)	23,099	48,124	49,739	(82,798)
Tax calculated at tax rate of 25%	(34,813)	5,775	12,031	12,435	(20,700)
Effect of tax rates in foreign jurisdictions	37,236	5,477	14,941	(995)	35,130
Tax concession	(1,778)	(2,430)	(562)	(59)	(370)
Non-taxable income	(1,188)	(1,182)	(14,261)	(10,906)	(7,016)
Non-deductible expenses	12,870	920	3,041	282	760
Unrecognised deferred tax assets	5,145	6,006	5,553	3,550	6,311
Utilisation of previously unrecognised deferred tax assets	(1,706)	(960)	(255)	(83)	—
Over provided in prior years	(304)	(145)	(49)	—	—
	15,462	13,461	20,439	4,224	14,115

Foreign invested manufacturing enterprises in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in the tax rate for the next three years, commencing from the first profitable year of operation after offsetting all tax losses brought forward from previous years (at most five years) ("Tax Holiday").

25 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated on the Group's (loss)/profit for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the financial year/period.

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 *Unaudited*	RMB'000
(Loss)/Profit for the year/period attributable to equity holders of the Company	(154,710)	9,638	27,685	45,515	(96,913)
Weighted average number of ordinary shares outstanding during the year* ('000)	342,850	416,183	448,656	419,017	499,995
Basic (loss)/earnings per share (RMB)	(0.45)	0.02	0.06	0.11	(0.19)

Weighted average number of ordinary shares (basic)

	Year ended 31 December			6 months ended 30 June	
	2011	2012	2013	2013	2014
	'000	'000	'000	'000 *Unaudited*	'000
Issued ordinary shares at beginning of the year/period*	189,530	416,183	416,183	416,183	486,333
Effect of shares issued:					
- GDHL Subscription*	82,042	—	—	—	—
- PWGL Settlement*	71,086	—	—	—	—
- related to a business combination*	—	—	19,332	2,387	10,840
Effect of ordinary shares issued*	—	—	11,906	—	—
Effect of warrants exercised*	192	—	1,235	447	2,822
Weighted average number of ordinary shares during the year/period*	342,850	416,183	448,656	419,017	499,995

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by dividing the (loss)/profit for the year/period attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares, being the outstanding warrants issued by the Company which are assumed to have been converted into ordinary shares at the beginning of the financial year/period and the (loss)/profit for the year/period is adjusted to eliminate the fair value gain/(loss) on warrants.

	Year ended 31 December			6 months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				Unaudited	
(Loss)/Profit for the year/period attributable to equity holders of the Company	(154,710)	9,638	27,685	45,515	(96,913)
Less:					
Fair value gain on warrants	7,028	—	—	1,332	258
Fair value gain on contingent consideration payable	—	—	—	3,932	—
Adjusted (loss)/profit used to determine diluted earnings per share	(161,738)	9,638	27,685	40,251	(97,171)
Adjusted weighted average number of ordinary shares (diluted) during the year/period* ('000)	343,783	416,183	448,656	423,648	502,057
Diluted (loss)/earnings per share (RMB)	(0.47)	0.02	0.06	0.10	(0.19)

Weighted average number of ordinary shares (diluted)

	Year ended 31 December			6 months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	'000	**'000**	**'000**	**'000**	**'000**
				Unaudited	
Weighted average number of ordinary shares (basic)*	342,850	416,183	448,656	419,017	499,995
Effect of exercise of warrants*	933	—	—	1,631	2,062
Effect of shares issued related to business combination*	—	—	—	3,000	—
Adjusted weighted average number of ordinary shares (diluted) during the year/period*	343,783	416,183	448,656	423,648	502,057

The followings were excluded from the diluted weighted average number of ordinary shares calculation as they do not have a dilutive effect.

		Year ended 31 December			6 months ended 30 June	
	Note	**2011**	**2012**	**2013**	**2013**	**2014**
		'000	**'000**	**'000**	**'000**	**'000**
					Unaudited	
CB Warrants*	18	—	2,270	1,644	—	—
PWGL Warrants*	18	—	3,163	—	—	—
GD Warrants*	18	—	5,769	4,769	—	—
Share options*	19	—	—	36,509	—	36,509
Consideration shares*	31	—	—	18,000	—	—

* The Company consolidated 10 existing ordinary shares into 1 new ordinary share on 27 May 2014. For comparative purpose, the weighted average number of shares outstanding for basic and diluted (loss)/earnings per share for the years ended 31 December 2011, 2012 and 2013, and 30 June 2013 have been adjusted for them to be stated on the comparable basis.

26 RELATED PARTY TRANSACTIONS

During the financial year/period, other than those disclosed elsewhere in the financial statements, the Group had significant transactions with related parties on terms agreed between the parties as follows:

Compensation of directors and key management personnel

	Year ended 31 December			6 months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				Unaudited	
Salaries, bonus and related benefits	4,034	5,203	11,397	7,505	4,647
Directors' fees	958	1,155	976	498	500
Defined contribution plans	63	62	78	38	40
Share-based payment transaction	—	—	5,371	—	21,483
Other benefits	174	250	153	—	480
	5,229	6,670	17,975	8,041	27,150
Comprised amounts paid/payable to:					
Directors of the Company	2,408	4,571	14,953	6,550	23,362
Other key management personnel	2,821	2,099	3,022	1,491	3,788
	5,229	6,670	17,975	8,041	27,150

27 COMMITMENTS

(i) Capital commitments

The Group has the following commitments as at the reporting date:

	31 December 2011	31 December 2012	31 December 2013	30 June 2014
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Capital expenditure on purchase of property, plant and equipment and construction of plants:				
- contracted but not provided for in the financial statements	54,372	52,196	144,634	155,946

(ii) Operating lease commitments

At the reporting date, the Group had entered into several operating lease commitments for office premises and staff accommodation. These leases do not contain renewal options and there were no restrictions placed upon the Group by entering into these leases. At the reporting date, the future minimum lease payables under these non-cancellable operating leases are as follows:

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Within 1 year	1,602	1,670	3,298	3,576
After 1 year but within 5 years	1,981	796	5,576	3,975
	3,583	2,466	8,874	7,551

28 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's executive committee (chief operating decision maker) for the purpose of resource allocation and performance assessment.

Revenue reported below represents revenue generated from external customers and inter-segment revenue.

The accounting policies of the reportable segments are disclosed in note 3.19. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expense, interest-bearing borrowings and related expenses and income and deferred taxes. No operating segments have been aggregated to form the following reportable operating segments.

Business segments

The following summary describes the operations in each of the Group's reportable segments for the year ended 31 December 2013 and six months ended 30 June 2014:

- Built-Operate-Transfer ("BOT")/ Transfer-Operate-Transfer ("TOT") wastewater treatment — Design, engineering, construction, operation and maintenance of municipal water and wastewater treatment plants.

- Engineering, procurement and construction ("EPC") services — Provision of turnkey services involving the entire process from consultancy design, production, construction and engineering, installation and commissioning of environmental projects.

- Other operations include general and corporate activities.

Years ended 31 December 2011 and 2012

There is only one reportable segment as the Group's operations relate to water treatment business.

Geographical segments

The Group operates predominantly in the PRC. All non-current assets are located in the PRC.

Customer segments

No single individual customer contributed significantly to the Group's revenue.

	BOT/TOT wastewater treatment RMB'000	EPC services RMB'000	Total reportable segments RMB'000	Other operations RMB'000	Total RMB'000
Year ended 31 December 2013					
Total revenue	532,140	166,565	698,705	—	698,705
Inter-segment revenue	—	(123,016)	(123,016)	—	(123,016)
Revenue from external customers	532,140	43,549	575,689	—	575,689
Segment results	184,556	2,420	186,976	(81,960)	105,016
Finance income	625	—	625	579	1,204
Finance costs	(48,808)	—	(48,808)	(9,288)	(58,096)
Reportable segment profit/(loss) before tax	136,373	2,420	138,793	(90,669)	48,124

	BOT/TOT wastewater treatment RMB'000	EPC services RMB'000	Total reportable segments RMB'000	Other operations RMB'000	Total RMB'000
Year ended 31 December 2013					
Other material non-cash items					
Amortisation of intangible assets	(3,950)	(1,809)	(5,759)	(255)	(6,014)
Amortisation of land use rights	(2,019)	—	(2,019)	—	(2,019)
Depreciation of property, plant and equipment	(647)	(390)	(1,037)	(936)	(1,973)
Equity-settled share-based payment transactions	—	—	—	(6,401)	(6,401)
Net fair value loss on warrants	—	—	—	(23,663)	(23,663)
Fair value loss on contingent consideration payable	—	—	—	(54,181)	(54,181)
Reportable segment assets	2,555,811	103,997	2,659,808	154,599	2,814,407
Reportable segment liabilities	999,617	97,163	1,096,780	365,432	1,462,212
Capital expenditure*	2,109	887	2,996	1,711	4,707
6 months ended 30 June 2013, unaudited					
Total revenue	219,030	42,681	261,711	—	261,711
Inter-segment revenue	—	(41,508)	(41,508)	—	(41,508)
Revenue from external customers	219,030	1,173	220,203	—	220,203
Segment results	63,275	(545)	62,730	10,206	72,936
Finance income	290	—	290	—	290
Finance costs	(14,660)	—	(14,660)	(8,827)	(23,487)
Reportable segment profit before income tax	48,905	(545)	48,360	1,379	49,739

	BOT/TOT wastewater treatment RMB'000	EPC services RMB'000	Total reportable segments RMB'000	Other operations RMB'000	Total RMB'000
6 months ended 30 June 2013, unaudited					
Other material non-cash items					
Amortisation of intangible assets	(1,958)	—	(1,958)	(110)	(2,068)
Amortisation of land use rights	(1,009)	—	(1,009)	—	(1,009)
Depreciation of property, plant and equipment	(411)	(76)	(487)	(295)	(782)
Net fair value gain on warrants	—	—	—	1,188	1,188
Fair value gain on contingent consideration payable	—	—	—	3,932	3,932
Reportable segment assets	2,377,188	41,912	2,419,100	55,486	2,474,586
Reportable segment liabilities	1,008,453	40,772	1,049,225	146,828	1,196,053
Capital expenditure*	266	893	1,159	651	1,810
6 months ended 30 June 2014					
Total revenue	151,925	23,972	175,897	—	175,897
Inter-segment revenue	—	(9,215)	(9,215)	—	(9,215)
Revenue from external revenue	151,925	14,757	166,682	—	166,682
Segment results	48,911	(5,198)	43,713	(92,240)	(48,527)
Finance income	406	10	416	811	1,227
Finance costs	(35,498)	—	(35,498)	—	(35,498)
Reportable segment profit/(loss) before income tax	13,819	(5,188)	8,631	(91,429)	(82,798)

	BOT/TOT wastewater treatment RMB'000	EPC services RMB'000	Total reportable segments RMB'000	Other operations RMB'000	Total RMB'000
6 months ended 30 June 2014					
Other material non-cash items					
Amortisation of intangible assets	(2,244)	(1,811)	(4,055)	(162)	(4,217)
Amortisation of land use rights	(1,009)	—	(1,009)	—	(1,009)
Depreciation of property, plant and equipment	(439)	(378)	(817)	(323)	(1,140)
Equity-settled share-based payment transactions	—	—	—	(26,491)	(26,491)
Net fair value loss on warrants	—	—	—	(9,461)	(9,461)
Fair value loss on contingent consideration payables	—	—	—	(26,697)	(26,697)
Reportable segment assets	2,691,221	92,495	2,783,716	182,792	2,966,508
Reportable segment liabilities	1,163,021	75,687	1,238,708	284,243	1,522,951
Capital expenditure*	336	52	388	1,193	1,581

* Capital expenditure includes expenditure on property, plant and equipment and intangible assets (excluding concession rights and goodwill).

29 FINANCIAL MANAGEMENT

The Group's activities exposed it to a variety of financial risks such as market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Group's overall risk management strategy, which remains unchanged from prior year, seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group continually monitor the risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and Company's activities.

The Board is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Board will review and agree on policies for managing each of these risks as summarised below.

(a) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to interest rate risk relates primarily to the Group's interest-bearing assets and liabilities. The Group do not enter into interest rate swaps to manage its interest rate risk. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

The table below sets out the Group's exposure to interest rate risks. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Variable rates			Fixed rates				
	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
31 December 2011								
Assets								
Financial receivables	—	—	—	—	—	—	1,731,169	1,731,169
Trade and other receivables*	—	—	—	—	—	—	47,041	47,041
Cash and cash equivalents	43,465	—	—	—	—	—	—	43,465
Total financial assets	43,465	—	—	—	—	—	1,778,210	1,821,675
Liabilities								
Borrowings	(76,836)	(303,762)	(84,017)	(40,000)	—	—	—	(504,615)
Trade and other payables	—	—	—	—	—	—	(185,824)	(185,824)
Other financial liabilities	—	—	—	—	—	—	(7,236)	(7,236)
Total financial liabilities	(76,836)	(303,762)	(84,017)	(40,000)	—	—	(193,060)	(697,675)
Net financial (liabilities)/assets	(33,371)	(303,762)	(84,017)	(40,000)	—	—	1,585,150	1,124,000
31 December 2012								
Assets								
Financial receivables	—	—	—	—	—	—	1,731,748	1,731,748
Trade and other receivables*	—	—	—	—	—	—	52,730	52,730
Cash and cash equivalents	37,380	—	—	13,500	—	—	—	50,880
Total financial assets	37,380	—	—	13,500	—	—	1,784,478	1,835,358

	Variable rates			Fixed rates				
	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
31 December 2012								
Liabilities								
Borrowings	(149,062)	(300,529)	(16,111)	(40,000)	(49,233)	—	—	(554,935)
Trade and other payables#	—	—	—	—	—	—	(145,947)	(145,947)
Other financial liabilities	—	—	—	—	—	—	(5,891)	(5,891)
Total financial liabilities	(149,062)	(300,529)	(16,111)	(40,000)	(49,233)	—	(151,838)	(706,773)
Net financial (liabilities)/assets	(111,682)	(300,529)	(16,111)	(26,500)	(49,233)	—	1,632,640	1,128,585
31 December 2013								
Assets								
Financial receivables	—	—	—	—	—	—	2,050,095	2,050,095
Trade and other receivables*	—	—	—	—	—	—	137,163	137,163
Cash and cash equivalents	220,108	—	—	22,500	—	—	—	242,608
Total financial assets	220,108	—	—	22,500	—	—	2,187,258	2,429,866
Liabilities								
Borrowings	(114,472)	(375,538)	(106,176)	(10,920)	(259,294)	—	—	(866,400)
Trade and other payables	—	—	—	—	—	—	(236,291)	(236,291)
Other financial liabilities	—	—	—	—	—	—	(120,018)	(120,018)
Total financial liabilities	(114,472)	(375,538)	(106,176)	(10,920)	(259,294)	—	(356,309)	(1,222,709)
Net financial (liabilities)/assets	105,636	(375,538)	(106,176)	11,580	(259,294)	—	1,830,949	1,207,157

	Variable rates			Fixed rates				
	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	After 5 years RMB'000	Non-interest bearing RMB'000	Total RMB'000
30 June 2014								
Assets								
Financial receivables	—	—	—	—	—	—	2,091,434	2,091,434
Trade and other receivables*	—	—	—	—	—	—	124,611	124,611
Cash and bank balances	380,831	—	—	—	—	—	—	380,831
Total financial assets	380,831	—	—	—	—	—	2,216,045	2,596,876
Liabilities								
Borrowings	(103,516)	(473,018)	(146,671)	(79,856)	(264,327)	—	—	(1,067,388)
Trade and other payables	—	—	—	—	—	—	(207,346)	(207,346)
Other financial liabilities	—	—	—	—	—	—	(2,200)	(2,200)
Total financial liabilities	(103,516)	(473,018)	(146,671)	(79,856)	(264,327)	—	(209,546)	(1,276,934)
Net financial assets/(liabilities)	277,315	(473,018)	(146,671)	(79,856)	(264,327)	—	2,006,499	1,319,942

* Excludes prepayments and advances to suppliers

\# Excludes deferred income

Sensitivity analysis

A change of 100 basis points in interest rate for the Group's variable borrowings rate would (decrease)/increase the Group's (loss)/profit before tax by the amounts as shown below. This analysis assumes that all other variables, in particular foreign currency and tax rates, remain constant.

	(Loss)/Profit before tax			
	Year ended 31 December			6 months ended 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rate instruments:				
- 100 basis points increase	(4,212)	(4,283)	(3,761)	(3,424)
- 100 basis points decrease	4,212	4,283	3,761	3,424

(b) Foreign currency risk

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk when transactions such as expenses and borrowings are denominated in currencies other than RMB. The currencies giving rise to this risk are primarily Singapore dollar (SGD), Hong Kong dollar (HKD) and United States dollar (USD).

The Company entered into a USD/SGD cross-currency swap with a financial institution on 19 September 2013. On initial exchange date, being 25 September 2013, the Company received USD28,766,582 in exchange for SGD35,800,000. On maturity, being 1 August 2015, the Group will receive SGD50,000,000 in exchange for USD40,176,778. The Group classifies the cross currency swap as financial liabilities at fair value through profit or loss.

Exposure to currency risk

The summary of quantitative data about the Group's exposure in foreign currency risk is provided to management of the Group based on its risk management policy was as follows:

	SGD RMB'000	HKD RMB'000	USD RMB'000
31 December 2011			
Financial assets			
Cash and cash equivalents	6,570	1,632	7
Trade and other receivables	—	1,154	—
	6,570	2,786	7
Financial liabilities			
Trade and other payables	(1,295)	(144)	—
Other financial liabilities	(7,236)	—	—
	(8,531)	(144)	—
Net financial (liabilities)/assets	(1,961)	2,642	7
31 December 2012			
Financial assets			
Cash and cash equivalents	737	326	7
Trade and other receivables	397	1,353	—
	1,134	1,679	7
Financial liabilities			
Trade and other payables	(2,457)	(5,725)	—
Other financial liabilities	(5,891)	—	—
	(8,348)	(5,725)	—
Net financial (liabilities)/assets	(7,214)	(4,046)	7

	SGD RMB'000	HKD RMB'000	USD RMB'000
31 December 2013			
Financial assets			
Cash and cash equivalents	45,918	518	82,238
Trade and other receivables	5,063	451	—
	50,981	969	82,238
Financial liabilities			
Other financial liabilities	(115,421)	—	—
Borrowings	(229,567)	—	—
Trade and other payables	(9,629)	(144)	—
	(354,617)	(144)	—
Net financial (liabilities)/assets	(303,636)	825	82,238
Cross-currency swap	—	—	(4,597)
Net exposure	(303,636)	825	77,641
30 June 2014			
Financial assets			
Cash and bank balances	40,353	25,497	675
Trade and other receivables	2,977	598	—
	43,330	26,095	675
Financial liabilities			
Borrowings	(242,398)	—	—
Other financial liabilities	(795)	—	—
	(243,193)	—	—
Net financial (liabilities)/assets	(199,863)	26,095	675
Cross-currency swap	—	—	(1,405)
Net exposure	(199,863)	26,095	(730)

Sensitivity analysis

A change of 10% (taking into consideration both strengthening and weakening aspect) of the following currencies against at the reporting date would (decrease)/increase the Group's (loss)/profit before income tax by the amounts as shown below. This analysis assumes that all other variables, in particular interest and tax rates, remain constant.

	(Loss)/Profit before tax			
		Year ended 31 December		**6 months ended 30 June**
	2011	**2012**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
SGD against RMB				
- strengthened	(196)	(721)	(30,364)	(19,986)
- weakened	196	721	30,364	19,986
HKD against RMB				
- strengthened	264	(405)	83	2,610
- weakened	(264)	405	(83)	(2,610)
USD against RMB				
- strengthened	1	1	7,764	(73)
- weakened	(1)	(1)	(7,764)	73

(c) Credit risk

Credit risk refers to the risk that the customer or counterparty failed to discharge an obligation and resulted in a financial loss to the Group.

As the Group does not hold any collateral, the maximum exposure to credit risk is the carrying amounts of the related financial assets presented on the statement of financial position.

The Group's credit risk is primarily attributable to its financial receivables and trade and other receivables. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of financial receivables and trade and other receivables. This allowance account in respect of financial receivables and trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

For financial receivables, the counterparties are municipal governments in different provinces in the PRC. Management is of the view that the associated credit risk is not significant. The financial receivables are monitored on an ongoing basis.

Trade and other receivables balances are monitored on an ongoing basis and whether the trade and other receivables are recoverable are estimated by the Group's management based on prior experience and the current economic environment.

Cash and fixed deposits are placed with banks and financial institutions which are regulated. For other financial assets, the Group minimises credit risk by dealing with high credit rating counterparties.

Significant concentration of credit risk

Concentration of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's credit exposure is concentrated mainly in the PRC, where its operations are based.

The age analysis of trade receivables past due at the reporting date is as follows:

	31 December 2011 Gross RMB'000	31 December 2012 Gross RMB'000	31 December 2013 Gross RMB'000	30 June 2014 Gross RMB'000
Not past due	16,667	14,971	41,976	54,095
Past due:				
- 1 to 30 days	2,691	5,370	10,357	7,435
- 31 to 90 days	4,031	5,565	9,212	2,822
- more than 90 days	8,027	21,476	19,147	19,745
	31,416	47,382	80,692	84,097

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables, including those which are past due, as the counterparties are municipal governments with insignificant credit risk.

(d) Liquidity risk

Liquidity risk refers to the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group monitors its liquidity risk and maintains a level of cash and cash equivalents and credit facilities deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The table below analyses the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows.

		Cash flows			
	Carrying amount RMB'000	**Contractual cash flows RMB'000**	**Within 1 year RMB'000**	**Between 2 to 5 years RMB'000**	**After 5 years RMB'000**
31 December 2011					
Borrowings	504,615	614,604	153,578	371,140	89,886
Trade and other payables	185,824	185,824	185,824	—	—
	690,439	800,428	339,402	371,140	89,886
31 December 2012					
Borrowings	554,935	669,546	232,444	418,817	18,285
Trade and other payables#	145,947	145,947	145,947	—	—
	700,882	815,493	378,391	418,817	18,285
31 December 2013					
Borrowings	866,400	1,087,935	194,638	765,531	127,766
Trade and other payables	236,291	236,291	236,291	—	—
Other financial liabilities*	4,597	4,597	—	4,597	—
	1,107,288	1,328,823	430,929	770,128	127,766
30 June 2014					
Borrowings	1,067,388	1,325,259	266,555	883,717	174,987
Trade and other payables	207,346	207,346	207,346	—	—
Other financial liabilities*	1,405	1,405	—	1,405	—
	1,276,139	1,534,010	473,901	885,122	174,987

Excludes deferred income

* Excludes warrants and contingent consideration payable

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares or obtain new borrowings. There is no change in capital management policies during the year.

The Group's strategies are to maintain a prudent balance between the advantage and flexibility afforded by a sound capital position and the higher return on equity that are possible with greater leverage.

Consistently, the Group monitors capital based on a net debt against equity ratio. The net debt against equity ratio is calculated by dividing net debt by total equity. Net debt is calculated as total liabilities (as shown in the statement of financial position, excluding current tax liabilities and deferred tax liabilities) less cash and cash equivalents. Total equity comprises share capital plus reserves.

	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2013 RMB'000	30 June 2014 RMB'000
Net debt	654,210	656,993	980,101	896,103
Total equity	1,144,412	1,154,039	1,352,424	1,443,786
Net debt against equity ratio	0.57	0.57	0.72	0.62

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2011, 2012 and 2013, and 30 June 2014.

The Group's subsidiaries in the PRC are required to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This has been complied with by the relevant subsidiaries for the financial years ended 31 December 2011, 2012 and 2013, and 30 June 2014.

30 FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following method. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Determination of fair values

(a) *Non-current borrowings*

Fair value is calculated based on discounted expected future principal and interest cash flows. The discount rates used are based on market rates for similar instruments at the reporting date.

(b) *Warrants*

The valuation methodology used is described in note 18(b).

(c) *Equity-settled share-based payments*

The valuation methodology used is described in note 19.

(d) *Contingent consideration*

The fair value of contingent consideration arising in a business combination is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). When appropriate, it is discounted to present value.

(e) *Other financial assets and liabilities*

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted at the market rate to determine their fair values.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Accounting classifications and fair values

Fair values versus carrying amounts

	Note	Loans and receivables RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Other financial liabilities within the scope of IAS 39 RMB'000	Carrying amount RMB'000	Fair value RMB'000
Group						
31 December 2011						
Assets						
Financial receivables	8	1,731,169	—	—	1,731,169	1,732,622
Trade and other receivables*	11	47,041	—	—	47,041	47,041
Cash and cash equivalents	12	43,465	—	—	43,465	43,465
		1,821,675	—	—	1,821,675	1,823,128
Liabilities						
Borrowings	15	—	—	(504,615)	(504,615)	(479,971)
Trade and other payables	17	—	—	(185,824)	(185,824)	(185,824)
Other financial liabilities	18	—	(7,236)	—	(7,236)	(7,236)
		—	(7,236)	(690,439)	(697,675)	(673,031)
31 December 2012						
Assets						
Financial receivables	8	1,731,748	—	—	1,731,748	1,733,201
Trade and other receivables*	11	52,730	—	—	52,730	52,730
Cash and cash equivalents	12	50,880	—	—	50,880	50,880
		1,835,358	—	—	1,835,358	1,836,811
Liabilities						
Borrowings	15	—	—	(554,935)	(554,935)	(556,422)
Trade and other payables#	17	—	—	(145,947)	(145,947)	(145,947)
Other financial liabilities	18	—	(5,891)	—	(5,891)	(5,891)
		—	(5,891)	(700,882)	(706,773)	(708,260)

	Note	Loans and receivables RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Other financial liabilities within the scope of IAS 39 RMB'000	Carrying amount RMB'000	Fair value RMB'000
Group						
31 December 2013						
Assets						
Financial receivables	8	2,050,095	—	—	2,050,095	2,051,707
Trade and other receivables*	11	137,163	—	—	137,163	136,393
Cash and cash equivalents	12	242,608	—	—	242,608	242,608
		2,429,866	—	—	2,429,866	2,430,708
Liabilities						
Borrowings	15	—	—	(866,400)	(866,400)	(866,772)
Trade and other payables	17	—	—	(236,291)	(236,291)	(236,291)
Other financial liabilities	18	—	(120,018)	—	(120,018)	(120,018)
		—	(120,018)	(1,102,691)	(1,222,709)	(1,223,081)
30 June 2014						
Assets						
Financial receivables	8	2,091,434	—	—	2,091,434	2,091,791
Trade and other receivables*	11	124,611	—	—	124,611	124,452
Cash and bank balances	12	380,831	—	—	380,831	380,831
		2,596,876	—	—	2,596,876	2,597,074
Liabilities						
Borrowings	15	—	—	(1,067,388)	(1,067,388)	(1,045,792)
Trade and other payables	17	—	—	(207,346)	(207,346)	(207,346)
Other financial liabilities	18	—	(2,200)	—	(2,200)	(2,200)
		—	(2,200)	(1,274,734)	(1,276,934)	(1,255,338)

* Excludes prepayments and advances to suppliers

\# Excludes deferred income

Fair value hierarchy

The tables below analyse fair value measurements for financial assets and financial liabilities, by the levels in the fair value hierarchy based on the inputs to valuation techniques. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table presents the financial instruments measured at fair value at 31 December 2011, 2012 and 2013, and 30 June 2014:

Financial instruments carried at fair value

	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
31 December 2011				
Liabilities				
Other financial liabilities:				
Derivative financial instruments:				
- Warrants	—	7,236	—	7,236
31 December 2012				
Liabilities				
Other financial liabilities:				
Derivative financial instruments:				
- Warrants	—	5,891	—	5,891
31 December 2013				
Liabilities				
Other financial liabilities:				
Derivative financial instruments:				
- Cross-currency swap	—	4,597	—	4,597
- Warrants	—	22,410	—	22,410
- Contingent consideration payable	—	93,011	—	93,011
	—	120,018	—	120,018

	Fair value			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
30 June 2014				
Liabilities				
Other financial liabilities:				
Derivative financial instruments:				
- Cross-currency swap	—	1,405	—	1,405
- Warrants	—	795	—	795
	—	2,200	—	2,200

*Financial instruments not carried at fair value but for which fair values are disclosed ***

	Fair value			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group				
31 December 2011				
Assets				
Financial receivables	—	1,732,622	—	1,732,622
Liabilities				
Borrowings	—	(479,971)	—	(479,971)
31 December 2012				
Assets				
Financial receivables	—	1,733,201	—	1,733,201
Liabilities				
Borrowings	—	(556,422)	—	(556,422)
31 December 2013				
Assets				
Financial receivables	—	2,051,707	—	2,051,707
Trade and other receivables*	—	136,393	—	136,393
	—	2,188,100	—	2,188,100
Liabilities				
Borrowings	—	(866,772)	—	(866,772)

	Fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
30 June 2014				
Assets				
Financial receivables	—	2,091,791	—	2,091,791
Trade and other receivables*	—	124,452	—	124,452
	—	2,216,243	—	2,216,243
Liabilities				
Borrowings	—	(1,045,792)	—	(1,045,792)

* Excludes prepayment

** Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair value due to their short-term nature and where the effect of discounting is immaterial.

31 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Financial year ended 31 December 2011

(i) Acquisition of a subsidiary

On 18 April 2011, the Group acquired the entire equity interest in Aqua Shine Group Limited, a company incorporated in Bermuda, for a cash consideration of RMB6.

(ii) Disposal of subsidiaries

On 31 May 2011, the Group entered into an agreement with a third party to dispose of its 100% interest in the issued share capital of Hubei New Environment Water Co., Ltd (湖北新环境水务有限公司) for a cash consideration of RMB6,200,000, resulting in a net loss on disposal of RMB4,042,000 being recognised in the Group's profit or loss for the year ended 31 December 2011. According to the terms of the agreement, the consideration consists of three instalments (i) RMB3,000,000 being the deposit received and the first instalment payment, (ii) RMB2,700,000 being the second instalment receivable, and (iii) RMB500,000 being the third and final instalment receivable.

On 31 May 2011, the Group entered into an agreement with a third party to dispose of its 100% interest in the issued share capital of Golden Idea Bio-Engineering (Dongguan) Co., Ltd (创思生物技术工程(东莞)有限公司) ("Golden Idea") and Anhui Jin Di Co., Ltd (宣城金迪水务有限公司) ("Anhui Jin Di") for a consideration of RMB126,757,000, resulting in a gain of RMB10,137,000 being recognised in the Group's profit or loss for the year ended 31 December 2011. According to the terms of the agreement, the consideration is offset against the Group's intercompany receivables.

The aggregate value of the assets and liabilities of the subsidiaries disposed of and the effect of the disposal on the Group's consolidated statement of cash flows are as follows:

Identified assets and liabilities disposed	2011 RMB'000
Property, plant and equipment	2,471
Land use rights	24,069
Deposits for acquisition of land use rights	1,401
Inventories	34
Trade and other receivables	252,847
Cash and cash equivalents	566
Trade and other payables	(155,586)
Total identifiable net assets	125,802
Non-controlling interests	975
	126,777
Realisation of foreign currency translation difference	85
Gain on disposal	6,095
Consideration for disposal	132,957
Less: Cash consideration receivable	(3,200)
Less: Set-off of payable balances	(126,757)
Less: Cash and cash equivalents in subsidiaries disposed of	(566)
Net cash inflow on disposal of subsidiaries	2,434

Financial year ended 31 December 2013

(i) ***Acquisition of subsidiaries***

On 23 May 2013, the Group acquired the entire equity interest in Victor Best Holdings Ltd. On the date of acquisition, Victor Best Holdings Ltd was the immediate and ultimate holding company of Tianjin Hanquan Environment Technology Limited and Jiangsu Tongyong Environment Engineering Co., Ltd (collectively the "Target Group"). The total purchase consideration of the acquisition of the Target Group is RMB116,511,000.

(ii) ***Consideration transferred***

	Note	2013 RMB'000
Cash		21
Issuance of ordinary shares of the Company	(a)	77,660
Contingent consideration arrangement	(b)	38,830
Total		116,511

(a) On 19 June 2013, 360,000,000 new ordinary shares of the Company have been issued as part of the purchase consideration of the acquisition of the Target Group.

(b) The Group is required to pay the vendor an additional share consideration of 180,000,000 ordinary shares of the Company ("Share Consideration") and a cash consideration of up to RMB30,000,000 ("Cash Consideration") based on the following:

— If Jiangsu Tongyong Environment Engineering Co., Ltd's audited net profit for the year ending 31 December 2013 ("Target 2013 Audited Net Profit") does not meet RMB15,300,000, the Group will not issue the Share Consideration or pay any Cash Consideration;

— If Target 2013 Audited Net Profit exceeds RMB15,300,000 but under RMB23,000,000, the Group will issue a portion of the Share Consideration but will not pay any Cash Consideration and the number of shares that will be issued is calculated as follows:
(Audited Net Profit — RMB15,333,000) x 6 ÷ (S$0.05 x 5.1062)

— If Target 2013 Audited Net Profit exceeds RMB23,000,000, the Group will issue the Share Consideration and pay a Cash Consideration that is calculated as follows:
(Audited Net Profit — RMB23,000,000) x 3

These Share Consideration has been taken up in other financial liabilities as at 31 December 2013 (see note 18(c)).

Identified assets acquired and liabilities assumed on date of acquisition

	2013 RMB'000
Property, plant and equipment	2,253
Intangible assets	27,216
Cash and cash equivalents	3,888
Trade and other receivables and other current assets	8,792
Inventories	297
Trade and other payables	(9,682)
Deferred tax liabilities	(6,300)
Total identifiable net assets	26,464
Goodwill arising from acquisition	90,047
Total consideration	116,511
Less: Cash and cash equivalents of subsidiaries acquired	(3,888)
Less: Purchase consideration settled via issuance of ordinary shares of the Company	(77,660)
Less: Contingent consideration payable	(38,830)
Net cash inflow on acquisition of subsidiaries	(3,867)

(i) As the 2013 Target Group 2013 audited net profit exceeded RMB23,000,000, 180,000,000 consideration shares of HK$0.10 each had been allocated and issued to the vendor on 14 March 2014.

(ii) On 10 April 2014, the Company had entered into a third supplemental agreement with Jiangsu Tongyong and the vendor whereby it was agreed, inter alia, that the vendors had unconditionally waived its right to receive the cash consideration from the Company.

Impact of acquisition on the results of the Group

From the date of acquisition, prior to intercompany elimination at the Group level, the Target Group contributed total revenue of approximately RMB166,565,000 and profit for the financial year ended 31 December 2013 of approximately RMB38,289,000. If the acquisitions had occurred on 1 January 2013, the revenue of the Group would have been RMB575,733,000, and the profit of the Group for the year ended 31 December 2013 would have been RMB14,301,000.

32 SUBSIDIARIES

Details of the subsidiaries at the end of the financial year are as follows:

Name of company	Principal activities	Principal of business/ Country of incorporation	Ownership interest held by the Group As at 31 December 2011 %	2012 %	2013 %	As at 30 June 2014 %
Held by the Company						
Ocean Force International Limited	Investment holding	British Virgin Islands ("BVI")	100	100	100	100
Joyer International Ltd	Investment holding	BVI	100	100	100	100
Aqua Shine Group Limited	Investment holding	BVI	100	100	100	100
HanKore International Pte. Ltd.	Investment holding	Singapore	100	100	100	100
Held by the Subsidiaries						
Beijing Hankelin Environmental Technology Co., Ltd (北京汉柯林环境科技有限公司)	Investment holding and provision of management service	PRC	100	100	100	100

Name of company	Principal activities	Principal of business/ Country of incorporation	Ownership interest held by the Group As at 31 December 2011 %	2012 %	2013 %	As at 30 June 2014 %
Sanmenxia HanKore Co., Ltd (三门峡汉科水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Xianyang Bai Sheng Shui Purifying Co., Ltd (咸阳百晟水净化有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Lianyungang King Fortune Water Co., Ltd (连云港金兆水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Suqian City Cheng Bei Wastewater Treatment Co., Ltd (宿迁市城北污水处理发展有限公司)	Dormant	PRC	100	100	100	100
Suqian City Cheng Bei Water Treatment Co., Ltd (宿迁市城北水务发展有限公司)	Dormant	PRC	100	100	100	100
Kunshan Gang Dong Wastewater Treatment Co., Ltd (昆山港东污水处理有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100

Name of company	Principal activities	Principal of business/ Country of incorporation	Ownership interest held by the Group As at 31 December 2011 %	2012 %	2013 %	As at 30 June 2014 %
Nanjing Golden Idea Water Development Co., Ltd (南京金迪水务发展有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Beijing Bio-Treat Water Co., Ltd (北京金迪水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Suzhou Jin Di Water Co., Ltd (苏州金迪水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Nanjing Jin Huan Water Development Co., Ltd (南京金环水务发展有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Binzhou Jin Di Co., Ltd (滨州金迪水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100

Name of company	Principal activities	Principal of business/ Country of incorporation	Ownership interest held by the Group As at 31 December 2011			As at 30 June 2014
			2011	2012	2013	2014
			%	%	%	%
Yangzhou HanKore Water Development Co., Ltd (扬州汉科水处理发展有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Liquan HanKore Water Co., Ltd (礼泉汉科水务有限公司)	Construction and operation of wastewater treatment plant for provision of wastewater treatment services	PRC	100	100	100	100
Beijing Hankesen Environmental Technology Co., Ltd (北京汉柯森环境科技有限公司)	Provide environmental protection technologies, research and development of environmental protection products, consultancy and development services of wastewater treatment technologies	PRC	—	100	100	100
Victor Best Holding Ltd	Investment holding	BVI	—	—	100	100
Tianjin Hanquan Environment Technology Limited (天津汉泉环保科技有限公司)	Investment holding	PRC	—	—	100	100

Name of company	Principal activities	Principal of business/ Country of incorporation	Ownership interest held by the Group As at 31 December 2011 %	2012 %	2013 %	As at 30 June 2014 %
Jiangsu Tongyong Environment Engineering Co., Ltd (江苏通用环境工程有限公司)	Engineering, procurement and construction of equipment, provision of equipment installation and design and construction of water treatment engineering	PRC	—	—	100	100

All significant subsidiaries are audited by KPMG LLP for group consolidation purpose. For this purpose, a subsidiary is considered significant as defined under the Singapore Exchange Limited Listing Manual if its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

The Board of Directors
HanKore Environment Tech Group Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

7 November 2014

Dear Sirs,

Report on the compilation of unaudited pro forma consolidated financial information included in the circular to shareholders of the Company

We have completed our assurance engagement to report on the compilation of pro forma financial information of HanKore Environment Tech Group Limited (the "Company") and its subsidiaries (the "Group"), including the proposed acquisition of the entire paid up share capital of China Everbright Water Investment Limited ("CEWIL") and the proposed issue and allotment of 1,940,269,305 shares to China Everbright Water Holdings Limited (the "Proposed Acquisition"). The pro forma financial information of the Company and CEWIL (the "Pro forma Group") consists of the pro forma consolidated statements of financial position as at 31 December 2013 and 30 June 2014, the pro forma consolidated statements of comprehensive income for the years ended 31 December 2011, 2012 and 2013, and for the six months ended 30 June 2014, the pro forma consolidated statements of cash flow for the year ended 31 December 2013 and the six months ended 30 June 2014, and related notes (the "Unaudited Pro forma Financial Information") as set out on pages K-5 to K-39 of the circular to shareholders of the Company (the "Circular") to be issued in connection with the Proposed Acquisition. The Unaudited Pro forma Financial Information of the Pro forma Group has been prepared for illustrative purposes only and are based on certain assumptions, after making certain adjustments. The basis of preparation (the "Preparation") of which the Management has compiled the pro forma financial information are described in Section 3.

The Unaudited Pro forma Financial Information has been compiled by the Management to illustrate the impact of the following transactions on the Pro forma Group's financial position as at 31 December 2013 and 30 June 2014 as if these transactions had taken place at 31 December 2013 and 30 June 2014 respectively, and its financial performance for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 as if these transactions had taken place at 1 January 2011, and cash flows for the year ended 31 December 2013 and the six months ended 30 June 2014 as if these transactions had taken place at 1 January 2013:

(a) the acquisition of the entire issued share capital of CEWIL;

(b) the issue and allotment of 1,940,269,305 shares to China Everbright Water Holdings Limited;

(c) the issue and allotment of shares to the warrant holders pursuant to the exercise of the outstanding warrants as at 31 December 2013 by the warrant holders; and

(d) the issue and allotment of 36,508,617 shares (after share consolidation) to the option holders pursuant to the exercise of share options by the option holders.

As part of this process, information about the Pro forma Group's financial position, financial performance and cash flows has been extracted by the Management from the audited consolidated financial statements of the Group and CEWIL for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. The audit reports of the Group and CEWIL for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 have been included in Appendices J, H and I respectively.

Management's responsibility for the pro forma financial information

Management is responsible for compiling the pro forma financial information on the basis of the Preparation.

Reporting Accountants' responsibility

Our responsibility is to express an opinion about whether the Unaudited Pro forma Financial Information has been compiled, in all material respects, by the Management on the basis of the Preparation.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420 *Assurance Engagements to Report on the Compilation of Pro forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the Reporting Accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Management has compiled, in all material respects, the Unaudited Pro forma Financial Information on the basis of the Preparation.

For the 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 Unaudited 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 Unaudited Pro forma Financial Information.

The purpose of the Unaudited Pro forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or 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 event or transaction at the various dates, as described in Section 2, would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro forma Financial Information has been compiled, in all material respects, on the basis of the Preparation involves performing procedures to assess whether the basis of Preparation used by the Management in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those basis of Preparation; 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 his understanding of the nature of the company, event or transaction in respect of which the Unaudited Pro forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited Pro forma Financial Information has been compiled:

  (i) in a manner consistent with the accounting policies adopted by the Group in its latest audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 and the accounting policies adopted by CEWIL in its latest audited financial statements for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, which are in accordance with International Financial Reporting Standards; and

  (ii) on the basis of the Preparation stated in Section 3 of the Unaudited Pro forma Financial Information; and

(b) each material adjustment made to the information used in the preparation of the Unaudited Pro forma Financial Information is appropriate for the purpose of preparing such unaudited consolidated pro forma financial information.

This letter has been prepared for inclusion in the Circular to be issued in connection with Proposed Acquisition.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore

Tan Huay Lim
Partner-in-charge

7 November 2014

Unaudited Pro forma Consolidated Statements of Financial Position
As at 31 December 2013 and 30 June 2014

	31 December 2013 HK$'000	30 June 2014 HK$'000
Non-current assets		
Property, plant and equipment	232,295	222,265
Intangible assets	333,684	328,973
Goodwill	982,145	1,127,193
Land use rights	64,476	61,987
Other receivables	192,629	17,667
Financial receivables	6,292,584	6,200,684
	8,097,813	7,958,769
Current assets		
Inventories	15,218	20,795
Trade and other receivables	448,644	394,224
Financial receivables	663,907	659,608
Tax recoverable	3,741	—
Cash and cash equivalents	720,746	967,758
	1,852,256	2,042,385
Total assets	9,950,069	10,001,154
Equity		
Share capital	2,555,629	2,547,151
Reserves	1,917,722	1,941,417
Retained earnings	1,232,422	1,398,421
Equity attributable to owners of the Company	5,705,773	5,886,989
Non-controlling interests	342,217	345,993
Total equity	6,047,990	6,232,982
Non-current liabilities		
Loans and borrowings	1,528,676	1,666,728
Trade and other payables	377,339	363,138
Other financial liabilities	5,847	1,760
Deferred tax liabilities	601,072	639,358
	2,512,934	2,670,984
Current liabilities		
Loans and borrowings	437,262	497,915
Trade and other payables	920,547	577,578
Current tax liabilities	31,336	21,695
	1,389,145	1,097,188
Total liabilities	3,902,079	3,768,172
Total equity and liabilities	9,950,069	10,001,154

The accompanying notes form an integral part of these unaudited pro forma consolidated financial information.

Unaudited Pro forma Consolidated Statements of Comprehensive Income
For the financial years ended 31 December 2011, 2012 and 2013 and
the six-months ended 30 June 2014

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	1,178,815	1,641,581	2,012,245	715,386
Cost of sales	(659,265)	(1,017,709)	(1,195,125)	(331,940)
Gross profit	519,550	623,872	817,120	383,446
Other income	49,024	28,970	42,565	13,810
Distribution expenses	—	—	(1,661)	(1,086)
Administrative expenses	(224,050)	(111,562)	(153,547)	(78,230)
Other operating expenses	(275,522)	(8,575)	(17,444)	(5,329)
Results from operating activities	69,002	532,705	687,033	312,611
Finance income	6,738	11,883	8,307	1,543
Finance costs	(151,191)	(144,957)	(151,570)	(79,365)
Finance cost	(144,453)	(133,074)	(143,263)	(77,822)
Profit before tax	(75,451)	399,631	543,770	234,789
Tax expense	(90,904)	(114,698)	(137,169)	(86,801)
(Loss)/Profit for the year/period	(166,355)	284,933	406,601	147,988
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from translation of foreign operations	89,067	23,668	83,148	(82,326)
Foreign currency translation differences realised from disposal of subsidiaries	103	—	—	—
Total other comprehensive income, net of tax	89,170	23,668	83,148	(82,326)
Total comprehensive income	(77,185)	308,601	489,749	65,662
(Loss)/Profit attributable to:				
Owners of the Company	(194,126)	263,377	382,645	135,797
Non-controlling interests	27,771	21,556	23,956	12,191
(Loss)/Profit for the year/period	(166,355)	284,933	406,601	147,988
Total comprehensive income attributable to:				
Owners of the Company	(118,370)	287,543	456,856	61,890
Non-controlling interests	41,185	21,058	32,893	3,772
	(77,185)	308,601	489,749	65,662
Earnings per share				
Basic earnings per share (HK$)	(0.08)	0.11	0.15	0.05
Diluted earnings per share (HK$)	(0.08)	0.11	0.15	0.05

The accompanying notes form an integral part of these unaudited pro forma consolidated financial information.

Unaudited Pro forma Consolidated Statements of Cash Flows
For the year ended 31 December 2013 and the six months ended 30 June 2014

	Year ended 31 December 2013 HK$'000	Six months ended 30 June 2014 HK$'000
Cash flows from operating activities		
Profit before tax	374,921	234,789
Adjustments for:		
Depreciation of property, plant and equipment	16,386	7,955
Amortisation of intangible assets	10,482	7,867
Amortisation of land use rights	2,860	1,433
Bad debts written off	—	2,177
Gain on disposal of service concession rights	(27,347)	—
Loss/(Gain) on disposal of property, plant and equipment	125	(42)
Impairment losses on other receivables	—	608
Net fair value loss/(gain) on:		
- warrants	5,283	—
- cross-currency swap	5,761	(4,013)
- contingent consideration payable	84,045	—
Equity-settled share based transaction	67,332	—
Effect of foreign exchange rate changes	(4,583)	10,478
Net finance costs	143,263	76,917
Operating cash flows before working capital changes	678,528	338,169
Changes in working capital:		
Financial receivables	(768,572)	(5,843)
Inventories	(5,089)	(5,900)
Trade and other receivables	(140,346)	(124,672)
Trade and other payables	318,015	(208,504)
Cash generated from/(used in) operations	82,536	(6,750)
Interest received	8,307	906
Tax paid	(60,525)	(41,683)
Net cash from/(used in) operating activities	30,318	(47,527)
Cash flows from investing activities		
Acquisition of:		
- intangible assets	(848)	—
- subsidiaries, net of cash acquired	4,846	—
- concession rights	—	(9,736)
Interest received	—	1,543
Purchase of property, plant and equipment	(17,343)	(3,702)
Proceeds from disposal of:		
- property, plant and equipment	464	677
- concession rights	2,515	1,393
Repayment from loan receivables	—	49,860
Repayment of amounts due from intermediate holding company	(40,133)	—
Net cash (used in)/from investing activities	(50,499)	40,035

The accompanying notes form an integral part of these unaudited pro forma consolidated financial information.

	Year ended 31 December 2013 HK$'000	Six months ended 30 June 2014 HK$'000
Cash flows from financing activities		
Proceeds from:		
- exercise of warrants	25,630	—
- exercise of share options	144,899	—
- issue of shares	88,379	—
- bank borrowings	260,432	410,610
- issue of notes	299,818	—
Repayment of bank borrowings	(368,400)	(184,725)
Advances from:		
- a fellow subsidiary	2,389	134,465
- immediate holding company	167,455	(200,464)
- intermediate holding company	6,241	177,266
Interest paid	(134,817)	(73,033)
Payment of transaction costs related to loans and borrowings	(36,646)	(2,622)
Increase in bank balances pledged	(14,980)	(109,522)
Net cash from financing activities	440,400	151,975
Net increase in cash and cash equivalents	420,219	144,483
Cash and cash equivalents at beginning of the year/period	214,833	638,584
Effect of exchange rate fluctuations on cash and cash equivalents	3,532	(4,658)
Cash and cash equivalents at end of the year/period	638,584	778,409
Represented by:		
Cash at bank and cash in hand	720,467	967,758
Less: Restricted bank balances	(81,883)	(189,349)
Cash and cash equivalents at end of the year/period	638,584	778,409

The accompanying notes form an integral part of these unaudited pro forma consolidated financial information.

Notes to the unaudited pro forma consolidated financial information

The unaudited pro forma consolidated financial information should be read in conjunction with the following financial statements:

(i) the audited consolidated financial statements of HanKore Environment Tech Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, as set out in Appendix J of this Circular; and

(ii) the audited consolidated financial statements of China Everbright Water Investments Limited ("CEWIL") and its subsidiaries (collectively, the "CEWIL Group") for the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, as set out in Appendices H and I of this Circular.

1. Introduction

The unaudited pro forma consolidated financial statements comprising the unaudited pro forma consolidated statements of financial position of the Pro forma Group as at 31 December 2013 and 30 June 2014, the unaudited pro forma consolidated statements of comprehensive income of the Pro forma Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 and the unaudited pro forma consolidated statements of cash flows of the Pro forma Group for the year ended 31 December 2013 and the six months ended 30 June 2014, have been prepared for inclusion in the circular to the shareholders (the "Circular") of the Company.

The unaudited pro forma consolidated financial statements were authorised for issue by the directors of the Company on 7 November 2014.

2. Proposed Acquisition

On 2 June 2014, the Company announced that it had entered into a conditional sale and purchase agreement ("Acquisition Agreement") with China Everbright Water Holdings Limited (the "Vendor") in respect of the proposed acquisition of the entire issued and paid-up share capital of CEWIL on the terms of the Acquisition Agreement (the "Proposed Acquisition").

In connection with the Proposed Acquisition, the Company will issue and allot 1,940,269,305 new shares at the issue price of S$0.703 per share to the Vendor, as payment for the entire share capital of CEWIL.

3. Basis of preparation of the unaudited pro forma consolidated financial information

3.1 The unaudited pro forma consolidated financial information has been prepared for illustrative purposes only, and based on certain assumptions after making certain adjustments (as described in Section 4 below), to show what:

(a) the unaudited pro forma consolidated financial position of the Pro forma Group as at 31 December 2013 and 30 June 2014 would have been if the Proposed Acquisition had occurred on 31 December 2013 and 30 June 2014 respectively;

(b) the unaudited pro forma consolidated financial results of the Pro forma Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 would have been if the Proposed Acquisition had occurred on 1 January 2011; and

(c) the unaudited pro forma consolidated cash flows of the Pro forma Group for the year ended 31 December 2013 and the six months ended 30 June 2014 would have been if the Proposed Acquisition had occurred on 1 January 2013.

The unaudited pro forma consolidated financial information, because of their nature, may not give a true picture of the actual financial position, financial results and cash flows of the Pro forma Group.

3.2 The unaudited pro forma consolidated financial information of the Pro forma Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 have been compiled based on the following:

(a) The audited consolidated financial statements of the Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, which were prepared in accordance with International Financial Reporting Standards ("IFRS") and audited by KPMG LLP, a firm of Chartered Accountants registered with the Accounting and Corporate Regulatory Authority in Singapore, in accordance with the International Standards on Auditing; and

(b) The audited consolidated financial statements of CEWIL for the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, which were prepared in accordance with IFRS and were audited by KPMG, a firm of Certified Public Accountants under Section 28A of the Hong Kong Professional Accountants Ordinance, Chapter 50, in accordance with the International Standards on Auditing.

The auditors' reports on the consolidated financial statements of the Group and CEWIL do not contain any qualification.

3.3 The unaudited pro forma consolidated financial information of the Pro forma Group has been compiled from the above-mentioned financial statements and is prepared on the basis of the accounting policies set out in the audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

4. Key assumptions and adjustments

The following key assumptions and adjustments were made for the preparation of the unaudited pro forma consolidated financial information of the Pro forma Group:

4.1 The purchase consideration for the Proposed Acquisition in the form of equity to be issued by the Company to the shareholder of CEWIL has been calculated based on the share price of $0.875 per share, being the share price as at 3 November 2014, for the purpose of this transaction. This may differ from the actual cost of the Proposed Acquisition as it will depend on the share price of the Company at the date of the actual transfer of shares on the completion of the Proposed Acquisition. As the actual goodwill or gain on bargain purchase will be determined at the completion of the Proposed Acquisition, the eventual amounts could be materially different from the amount derived based on the assumption used;

4.2 Management is of the view that there will be expected synergies from the Proposed Acquisition. For the purpose of the preparation of the unaudited pro forma consolidation financial information, any goodwill arising from the Proposed Acquisition is assumed not to be impaired and will be tested for impairment at least annually or when there is an indication of impairment;

4.3 The carrying amounts of assets and liabilities of the Group are assumed to approximate their fair values and there are no other significant assets or liabilities identified as part of the Proposed Acquisition;

4.4 The professional fees and related costs relating to the Proposed Acquisition are estimated to be approximately HK$35 million. These include waiver fees and related costs of approximately HK$6 million payable to note holders and banker in connection with the medium term note ("MTN") issued by the Company for the proposed waiver for early redemption of the MTN due to the impending change of controlling shareholder following the Proposed Acquisition. This may differ from the actual cost at the completion of the Proposed Acquisition;

4.5 The following warrants and share options which were outstanding as at 31 December 2013 are assumed to be exercised as follows:

Unaudited pro forma financial position of the Pro forma Group as at 31 December 2013 and 30 June 2014

The warrants and share options are assumed to be exercised on 31 December 2013 and 30 June 2014 respectively.

Unaudited pro forma financial results of the Pro forma Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014

The warrants and share options are assumed to be exercised on 1 January 2011.

Unaudited pro forma cash flows of the Pro forma Group for the year ended 31 December 2013 and the six months ended 30 June 2014

The warrants and share options are assumed to be exercised on 1 January 2013.

(a)	Convertible bond warrants	
	Number of warrants outstanding as at 31 December 2013 (before share consolidation)	16,441,796
	Exercise price (S$) (before share consolidation)	S$0.025
(b)	Giant Delight Holdings Limited warrants	
	Number of warrants outstanding as at 31 December 2013 (before share consolidation)	47,692,402
	Exercise price (S$) (before share consolidation)	S$0.040
(c)	Share options	
	Number of options outstanding as at 31 December 2013 (before share consolidation)	365,086,178
	Exercise price (S$) (before share consolidation)	S$0.064

In addition, on 27 May 2014, every ten (10) ordinary shares of par value HK$0.10 each in the capital of the Company were consolidated into one (1) ordinary share of par value HK$1.00 each;

4.6 The Group was required to pay the vendor of Jiangsu Tongyong an additional share consideration of 180,000,000 ordinary shares (before share consolidation) of the Company ("Consideration Shares") if Jiangsu Tongyong's December 2013 audited net profit exceeded RMB23,000,000. As the condition was met, the Company issued and allotted 180,000,000 shares (before share consolidation) to the vendor on 14 March 2014.

The Consideration Shares are assumed to be issued as follows:

Unaudited pro forma financial position of the Pro forma Group as at 31 December 2013

The Consideration Shares are assumed to be issued on 31 December 2013 based on the share price on 14 March 2014.

Unaudited pro forma financial results of the Pro forma Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014

The Consideration Shares are assumed to be issued on 1 January 2011 based on the share price on 14 March 2014.

Unaudited pro forma cash flows of the Pro forma Group for the year ended 31 December 2013 and the six months ended 30 June 2014

The Consideration Shares are assumed to be issued on 1 January 2013 based on the share price on 14 March 2014;

4.7 On 24 July 2014, CEWIL had entered into agreements to acquire a 78% equity interest in Qingdao Veolia Water Operating Company Limited ("Qingdao Veolia") and a 40% equity interest in EB-VW HK Holding Company Limited ("EB-VW") from Veolia Water S.A. ("Veolia") for a total consideration of RMB72.7 million. Following the completion of the acquisitions, CEWIL holds a 99% equity interest in Qingdao Veolia and wholly owns EB-VW. EB-VW holds a 60% equity interest in Qingdao EB-VW Waste Water Treatment Co. Ltd. The effects of these acquisitions are not significant to the assets, liabilities or the results of the Pro forma Group; and

4.8 The presentation currency of the Pro forma Group is Hong Kong dollars ("HKD"). The Company's functional currency and the presentation currency of the Group is Renminbi (RMB). For purpose of compilation of the unaudited pro forma consolidated financial information, the audited consolidated financial statements of the Group were translated from RMB to HKD using the following exchange rates:

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
Average exchange rates	0.8279	0.8134	0.7979	0.7954

	As at 31 December			As at 30 June
	2011	2012	2013	2014
Closing exchange rates	0.8107	0.8114	0.7862	0.7984

5. Unaudited Pro forma Consolidated Financial Information of the Pro forma Group

(i) Unaudited pro forma consolidated statement of financial position as at 31 December 2013 and 30 June 2014

The following adjustments have been made in arriving at the Unaudited Pro forma Consolidated Statement of Financial Position as at 31 December 2013:

	Audited consolidated statement of financial position of the Group	Audited statement of financial position of CEWIL	Pro forma adjustments (see notes below)					Unaudited pro forma consolidated statement of financial position
			(a)	(b)	(c)	(d)	(e)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2013								
Non-current assets								
Property, plant and equipment	69,667	162,628	—	—	—	—	—	232,295
Intangible assets	185,641	148,043	—	—	—	—	—	333,684
Goodwill	114,534	9,538	—	—	—	—	858,073	982,142
Land use rights	56,889	7,587	—	—	—	—	—	64,476
Other receivables	22,301	170,328	—	—	—	—	—	192,629
Financial receivables	2,421,965	3,870,619	—	—	—	—	—	6,292,584
	2,870,997	4,368,743	—	—	—	—	858,073	8,097,813
Current assets								
Inventories	8,056	7,162	—	—	—	—	—	15,218
Trade and other receivable	206,489	242,155	—	—	—	—	—	448,644
Financial receivables	185,635	478,272	—	—	—	—	—	663,907
Tax recoverable	—	3,741	—	—	—	—	—	3,741
Cash and cash equivalents	308,583	290,413	—	—	156,304	(34,554)	—	720,746
	708,763	1,021,743	—	—	156,304	(34,554)	—	1,852,256
Total assets	3,579,760	5,390,486	—	—	156,304	(34,554)	858,073	9,950,069

	Audited consolidated statement of financial position of the Group HK$'000	Audited statement of financial position of CEWIL HK$'000	Pro forma adjustments (see notes below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	(e) HK$'000	Unaudited pro forma consolidated statement of financial position HK$'000
31 December 2013								
Equity								
Share capital	554,437	—*	—	1,940,270	60,922	—	—	2,555,629
Reserves	1,632,265	416,465	1,210,050	5,451,319	268,126	—	7,060,503	1,917,722
Retained earnings	(466,498)	1,232,422	—	—	(25,935)	(34,554)	526,987	1,232,422
Total equity attributable to owners of the Company	1,720,204	1,648,887	1,210,050	7,391,589	303,113	(34,554)	6,533,516	5,705,773
Non-controlling interests	(291)	342,508	—	—	—	—	—	342,217
Total equity	1,719,913	1,991,395	1,210,050	7,391,589	303,113	(34,554)	6,533,516	6,047,990
Non-current liabilities								
Loans and borrowings	942,518	586,158	—	—	—	—	—	1,528,676
Other payables	—	1,587,389	(1,210,050)	—	—	—	—	377,339
Other financial liabilities	5,847	—	—	—	—	—	—	5,847
Deferred tax liabilities	295,569	305,503	—	—	—	—	—	601,072
	1,243,934	2,479,050	(1,210,050)	—	—	—	—	2,512,934
Current liabilities								
Loans and borrowings	159,491	277,771	—	—	—	—	—	437,262
Trade and other payables	300,548	619,999	—	—	—	—	—	920,547
Other financial liabilities	146,809	—	—	—	(146,809)	—	—	—
Current tax liabilities	9,065	22,271	—	—	—	—	—	31,336
	615,913	920,041	—	—	(146,809)	—	—	1,389,145
Total liabilities	1,859,847	3,399,091	(1,210,050)	—	(146,809)	—	—	3,902,079
Total equity and liabilities	3,579,760	5,390,486	—	7,391,589	156,304	(34,554)	6,533,516	9,950,069

* The balance represents amount less than HK$1,000.

Notes to the pro forma adjustments:

(a) To account for the capitalisation of the amounts due to immediate holding company of CEWIL of HK$1,210,050,000;

(b) To account for the issuance of 1,940,269,305 shares of par value of HK$1.00 pursuant to the Proposed Acquisition at $0.875 per share, based on the share price as at 3 November 2014;

(c) To account for the issuance of shares in relation to:

  (i) the outstanding warrants as at 31 December 2013 which are assumed to be exercised on 31 December 2013 (note 4.5(a) and (b));

  (ii) the share options which are assumed to be exercised on 31 December 2013 (note 4.5(c)); and

  (iii) the contingent consideration to the vendor of Jiangsu Tongyong Environment Engineering Co., Ltd (note 4.6);

(d) To account for the professional fees and related expenses in respect of the Proposed Acquisition (note 4.4); and

(e) To reflect consolidation entries for:

  (i) restatement of share capital of the Pro forma Group to reflect the equity structure of the Company;

  (ii) elimination of the Company and its subsidiaries' pre-acquisition reserves;

  (iii) elimination of the Company and its subsidiaries' pre-acquisition losses;

  (iv) elimination of the Company's cost of investment in CEWIL; and

  (v) recognition of the goodwill of HK$858,073,000 arising from the Proposed Acquisition.

The following adjustments have been made in arriving at the Unaudited Pro forma Consolidated Statement of Financial Position as at 30 June 2014:

	Audited consolidated statement of financial position of the Group	Audited statement of financial position of CEWIL	Pro forma adjustments (see notes below)				Unaudited pro forma consolidated statement of Financial Position
			(a)	(b)	(c)	(d)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
30 June 2014							
Non-current assets							
Property, plant and equipment	68,716	153,549	—	—	—	—	222,265
Intangible assets	187,222	141,751	—	—	—	—	328,973
Goodwill	112,784	9,538	—	—	—	1,004,871	1,127,193
Land use rights	54,756	7,231	—	—	—	—	61,987
Other receivables	17,667	—	—	—	—	—	17,667
Financial receivables	2,401,365	3,799,319	—	—	—	—	6,200,684
	2,842,510	4,111,388	—	—	—	1,004,871	7,958,769
Current assets							
Inventories	13,194	7,601	—	—	—	—	20,795
Trade and other receivables	164,701	229,523	—	—	—	—	394,224
Financial receivables	218,166	441,442	—	—	—	—	659,608
Cash and cash equivalents	476,992	369,021	—	145,311	(23,566)	—	967,758
	873,053	1,047,587	—	145,311	(23,566)	—	2,042,385
Total assets	3,715,563	5,158,975	—	145,311	(23,566)	1,004,871	10,001,154

	Audited consolidated statement of financial position of the Group	Audited statement of financial position of CEWIL	Pro forma adjustments (see notes below)				Unaudited pro forma consolidated statement of Financial Position
			(a)	(b)	(c)	(d)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
30 June 2014							
Equity							
Share capital	570,086	—*	1,940,269	36,796	—	—	2,547,151
Other reserves	1,819,016	1,552,608	5,338,372	76,207	—	(6,836,770)	1,941,417
Retained earnings	(580,754)	1,398,421	—	33,304	(23,566)	571,016	1,398,421
Total equity attributable to owners of the Company	1,808,348	2,951,029	7,278,641	146,307	(23,566)	(6,273,771)	5,886,989
Non-controlling interests	(287)	346,280	—	—	—	—	345,993
Total equity	1,808,061	3,297,309	7,278,641	146,307	(23,566)	(6,273,771)	6,232,982
Non-current liabilities							
Loans and borrowings	1,107,234	559,494	—	—	—	—	1,666,728
Other payables	—	363,138	—	—	—	—	363,138
Other financial liabilities	1,760	—	—	—	—	—	1,760
Deferred tax liabilities	307,798	331,560	—	—	—	—	639,358
	1,416,792	1,254,192	—	—	—	—	2,670,984
Current liabilities							
Loans and borrowings	229,674	268,241	—	—	—	—	497,915
Trade and other payables	259,701	317,877	—	—	—	—	577,578
Other financial liabilities	996	—	—	(996)	—	—	—
Current tax liabilities	339	21,356	—	—	—	—	21,695
	490,710	607,474	—	(996)	—	—	1,097,188
Total liabilities	1,907,502	1,861,666	—	(996)	—	—	3,768,172
Total equity and liabilities	3,715,563	5,158,975	7,278,641	145,311	(23,566)	(6,273,771)	10,001,154

* The balance represents amount less than HK$1,000.

Notes to the pro forma adjustments:

(a) To account for the issuance of 1,940,269,305 shares of par value of HK$1.00 pursuant to the Proposed Acquisition at $0.875 per share, based on the share price as at 3 November 2014;

(b) To account for the issuance of shares in relation to:

 (i) the outstanding warrants as at 31 December 2013 which are assumed to be exercised on 31 December 2013 (note 4.5(a) and (b)); and

 (ii) the share options which are assumed to be exercised on 31 December 2013 (note 4.5(c));

(c) To account for professional fees and related expenses in respect of the Proposed Acquisition (note 4.4); and

(d) To reflect consolidation entries for:

 (i) restatement of share capital of the Pro forma Group to reflect the equity structure of the Company;

 (ii) elimination of the Company and its subsidiaries' pre-acquisition reserves;

 (iii) elimination of the Company and its subsidiaries' pre-acquisition losses;

 (iv) elimination of the Company's cost of investment in CEWIL; and

 (v) recognition of the goodwill of HK$1,004,871,000 arising from the Proposed Acquisition.

(ii) Unaudited pro forma consolidated statement of comprehensive income for the years ended 31 December 2011, 2012 and 2013, and for the six months ended 30 June 2014

For the financial year ended 31 December 2011	Audited consolidated statement of comprehensive income of the Group HK$'000	Audited statement of comprehensive income of CEWIL HK$'000	Pro forma adjustments (see notes below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	(e) HK$'000	Unaudited pro forma consolidated statement of comprehensive income HK$'000
Revenue	324,283	854,532	—	—	—	—	—	1,178,815
Cost of sales	(259,768)	(399,497)	—	—	—	—	—	(659,265)
Gross profit	64,515	455,035	—	—	—	—	—	519,550
Other income	49,785	3,592	(4,353)	—	—	—	—	49,024
Administrative expenses	(67,102)	(55,438)	—	(66,553)	—	(34,852)	(105)	(224,050)
Other operating expenses	(170,754)	(349)	—	—	(104,419)	—	—	(275,522)
Results from operating activities	(123,556)	402,840	(4,353)	(66,553)	(104,419)	(34,852)	(105)	69,002
Finance income	192	6,546	—	—	—	—	—	6,738
Finance costs	(44,834)	(106,357)	—	—	—	—	—	(151,191)
Net finance cost	(44,642)	(99,811)	—	—	—	—	—	(144,453)
(Loss)/Profit before income tax	(168,198)	303,029	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(75,451)
Income tax (expense)/credit	(18,676)	(72,228)	—	—	—	—	—	(90,904)
Profit/(Loss) for the year	(186,874)	230,801	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(166,355)

For the financial year ended 31 December 2011	Audited consolidated statement of comprehensive income of the Group	Audited statement of comprehensive income of CEWIL	Pro forma adjustments (see notes below)					Unaudited pro forma consolidated statement of comprehensive income
			(a)	(b)	(c)	(d)	(e)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Foreign currency translation differences from translation of foreign operations	14	89,053	—	—	—	—	—	89,067
Foreign currency translation differences realised from disposal of subsidiaries	103	—	—	—	—	—	—	103
Other comprehensive income, net of tax	117	89,053	—	—	—	—	—	89,170
Total comprehensive income	(186,757)	319,854	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(77,185)
(Loss)/Profit attributable to:								
Owners of the Company	(186,870)	203,026	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(194,126)
Non-controlling interests	(4)	27,775	—	—	—	—	—	27,771
	(186,874)	230,801	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(166,355)
Total comprehensive income attributable to:								
Owners of the Company	(186,753)	278,665	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(118,370)
Non-controlling interests	(4)	41,189	—	—	—	—	—	41,185
	(186,757)	319,854	(4,353)	(66,553)	(104,419)	(34,852)	(105)	(77,185)

Notes to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(b) To account for the equity-settled share based payments expense on the outstanding share options as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(c) To account for the fair value changes on contingent consideration payable relating to the Consideration Shares which are assumed to have been issued on 1 January 2011;

(d) To account for the professional fees and related costs incurred in respect of the Proposed Acquisition; and

(e) To account for the foreign exchange losses arising on the cash received from warrants and share options which are assumed to have been exercised on 1 January 2011.

For the financial year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group HK$'000	Audited statement of comprehensive income of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	Unaudited pro forma consolidated statement of comprehensive income HK$'000
Revenue	250,554	1,391,027	—	—	1,641,581
Cost of sales	(111,404)	(906,305)	—	—	(1,017,709)
Gross profit	139,150	484,722	—	—	623,872
Other income	19,684	10,361	(1,075)	—	28,970
Administrative expenses	(67,750)	(49,740)	—	5,928	(111,562)
Other operating expenses	(8,563)	(12)	—	—	(8,575)
Results from operating activities	82,521	445,331	(1,075)	5,928	532,705
Finance income	151	11,732	—	—	11,883
Finance costs	(54,275)	(90,682)	—	—	(144,957)
Net finance cost	(54,124)	(78,950)	—	—	(133,074)
Profit before income tax	28,397	366,381	(1,075)	5,928	399,631
Income tax expense	(16,549)	(98,149)	—	—	(114,698)
Profit for the year	11,848	268,232	(1,075)	5,928	284,933

For the financial year ended 31 December 2012	Audited consolidated statement of comprehensive income of the Group HK$'000	Audited statement of comprehensive income of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	Unaudited pro forma consolidated statement of comprehensive income HK$'000
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences from translation of foreign operations	(14)	23,682	—	—	23,668
Total other comprehensive income, net of tax	(14)	23,682	—	—	23,668
Total comprehensive income	11,834	291,914	(1,075)	5,928	308,601
Profit attributable to:					
Owners of the Company	11,848	246,676	(1,075)	5,928	263,377
Non-controlling interest	—	21,556	—	—	21,556
	11,848	268,232	(1,075)	5,928	284,933
Total comprehensive income attributable to:					
Owners of the Company	11,834	270,856	(1,075)	5,928	287,543
Non-controlling interest	—	21,058	—	—	21,058
	11,834	291,914	(1,075)	5,928	308,601

Note to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011; and

(b) To account for the foreign exchange gain arising on the cash received from warrants and share options which are assumed to have been exercised on 1 January 2011.

For the financial year ended 31 December 2013	Audited consolidated statement of comprehensive income of the Group	Audited consolidated statement of comprehensive income of CEWIL	Pro forma adjustments (see notes below)				Unaudited pro forma consolidated statement of comprehensive income
			(a)	(b)	(c)	(d)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	721,505	1,290,740	—	—	—	—	2,012,245
Cost of sales	(433,647)	(761,478)	—	—	—	—	(1,195,125)
Gross profit	287,858	529,262	—	—	—	—	817,120
Other income	32,073	10,492	—	—	—	—	42,565
Distribution expenses	(1,661)	—	—	—	—	—	(1,661)
Administrative expenses	(77,017)	(65,714)	—	(8,022)	—	(2,794)	(153,547)
Other operating expenses	(109,638)	(84)	24,374	—	67,904	—	(17,444)
Results from operating activities	131,615	473,956	24,374	(8,022)	67,904	(2,794)	687,033
Finance income	1,509	6,798	—	—	—	—	8,307
Finance costs	(72,811)	(78,759)	—	—	—	—	(151,570)
Net finance costs	(71,302)	(71,961)	—	—	—	—	(143,263)
Profit before tax	60,313	401,995	24,374	(8,022)	67,904	(2,794)	543,770
Tax expense	(25,616)	(111,553)	—	—	—	—	(137,169)
Profit for the year	34,697	290,442	24,374	(8,022)	67,904	(2,794)	406,601

For the financial year ended 31 December 2013	Audited consolidated statement of comprehensive income of the Group HK$'000	Audited consolidated statement of comprehensive income of CEWIL HK$'000	Pro forma adjustments (see notes below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	Unaudited pro forma consolidated statement of comprehensive income HK$'000
Other comprehensive income							
Items that may be reclassified subsequently to profit or loss:							
Foreign currency translation differences from translation of foreign operations	—	83,148	—	—	—	—	83,148
Total other comprehensive income, net of tax	—	83,148	—	—	—	—	83,148
Total comprehensive income	34,697	373,590	24,374	(8,022)	67,904	(2,794)	489,749
Profit attributable to:							
Owners of the Company	34,697	266,486	24,374	(8,022)	67,904	(2,794)	382,645
Non-controlling interest	—	23,956	—	—	—	—	23,956
	34,697	290,442	24,374	(8,022)	67,904	(2,794)	406,601
Total comprehensive income attributable to:							
Owners of the Company	34,697	340,697	24,374	(8,022)	67,904	(2,794)	456,856
Non-controlling interest	—	32,893	—	—	—	—	32,893
	34,697	373,590	24,374	(8,022)	67,904	(2,794)	489,749

Notes to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(b) To reflect the reversal of the equity-settled share-based payment expense relating to the outstanding share options as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(c) To account for the fair value changes on contingent consideration payable relating to the Consideration Shares which are assumed to have been issued on 1 January 2011; and

(d) To account for the foreign exchange losses arising on the cash received from warrants and share options which are assumed to have been exercised on 1 January 2011.

For the six months ended 30 June 2014	Audited consolidated statement of comprehensive income of the Group	Audited statement of comprehensive income of CEWIL	Pro forma adjustments (see notes below)					Unaudited pro forma consolidated statement of comprehensive income
			(a)	(b)	(c)	(d)	(e)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	209,549	505,837	—	—	—	—	—	715,386
Cost of sales	(135,246)	(196,694)	—	—	—	—		(331,940)
Gross profit	74,303	309,143	—	—	—	—	—	383,446
Other income	9,899	3,911	—	—	—	—	—	13,810
Distribution expenses	(1,086)	—	—	—	—	—	—	(1,086)
Administrative expenses	(93,485)	(30,922)	—	33,304	—	11,267	1,606	(78,230)
Other operating expenses	(50,638)	(148)	11,894	—	33,563	—	—	(5,329)
Results from operating activities	(61,007)	281,984	11,894	33,304	33,563	11,267	1,606	312,611
Finance income	1,543	—	—	—	—	—	—	1,543
Finance costs	(44,627)	(34,738)	—	—	—	—	—	(79,365)
Net finance cost	(43,084)	(34,738)	—	—	—	—	—	(77,822)
(Loss)/Profit before income tax	(104,091)	247,246	11,894	33,304	33,563	11,267	1,606	234,789
Income tax expense	(17,745)	(69,056)	—	—	—	—	—	(86,801)
(Loss)/Profit for the year	(121,836)	178,190	11,894	33,304	33,563	11,267	1,606	147,988

For the six months ended 30 June 2014	Audited consolidated statement of comprehensive income of the Group HK$'000	Audited statement of comprehensive income of CEWIL HK$'000	Pro forma adjustments (see notes below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	(e) HK$'000	Unaudited pro forma consolidated statement of comprehensive income HK$'000
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Foreign currency translation differences from translation of foreign operations	—	(82,326)	—	—	—	—	—	(82,326)
Total other comprehensive income, net of tax	—	(82,326)	—	—	—	—	—	(82,326)
Total comprehensive income	(121,836)	95,864	11,894	33,304	33,563	11,267	1,606	65,662
(Loss)/Profit attributable to:								
Owners of the Company	(121,836)	165,999	11,894	33,304	33,563	11,267	1,606	135,797
Non-controlling interest	—	12,191	—	—	—	—	—	12,191
	(121,836)	178,190	11,894	33,304	33,563	11,267	1,606	147,988
Total comprehensive income attributable to:								
Owners of the Company	(121,836)	92,092	11,894	33,304	33,563	11,267	1,606	61,890
Non-controlling interest	—	3,772	—	—	—	—	—	3,772
	(121,836)	95,864	11,894	33,304	33,563	11,267	1,606	65,662

Notes to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(b) To reflect the reversal of the equity-settled share-based payment expense relating to the outstanding share options as at 31 December 2013 which are assumed to have been exercised on 1 January 2011;

(c) To reflect the reversal of the professional fees and related costs recognised during the six months ended 30 June 2014 in respect of the Proposed Acquisition;

(d) To account for the professional fees and related costs incurred in respect of the Proposed Acquisition; and

(e) To account for the foreign exchange losses arising on the cash received from warrants and share options which are assumed to have been exercised on 1 January 2011.

(iii) Unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2013 and the six months ended 30 June 2014

For the year ended 31 December 2013	Audited consolidated statement of cash flows of the Group HK$'000	Audited consolidated statement of cash flows of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	Unaudited pro forma consolidated statement of cash flows HK$'000
Cash flows from operating activities							
Profit before tax	60,313	401,995	24,241	(60,654)	(34,833)	(16,141)	374,921
Adjustments for:							
Depreciation of property, plant and equipment	2,473	13,913	—	—	—	—	16,386
Amortisation of intangible assets	7,537	2,945	—	—	—	—	10,482
Amortisation of land use rights	2,530	330	—	—	—	—	2,860
Gain on disposal of service concession rights	(27,347)	—	—	—	—	—	(27,347)
Loss on disposal of property, plant and equipment	41	84	—	—	—	—	125
Net fair value loss on:							
- warrants	29,657	—	(24,374)	—	—	—	5,283
- cross-currency swap	5,761	—	—	—	—	—	5,761
- contingent consideration payable	67,904	—	—	—	—	16,141	84,045
Equity-settled share based transaction	8,022	—	—	59,310	—	—	67,332
Effect of foreign exchange rate changes	(4,547)	(1,513)	133	1,344	—	—	(4,583)
Net finance costs	71,302	71,961	—	—	—	—	143,263
Operating cash flows before working capital changes	223,646	489,715	—	—	(34,833)	—	678,528

For the year ended 31 December 2013	Audited consolidated statement of cash flows of the Group HK$'000	Audited consolidated statement of cash flows of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	Unaudited pro forma consolidated statement of cash flows HK$'000
Changes in working capital:							
Financial receivables	(398,981)	(369,591)	—	—	—	—	(768,572)
Inventories	(6,333)	1,244	—	—	—	—	(5,089)
Trade and other receivables	(168,788)	28,442	—	—	—	—	(140,346)
Trade and other payables	168,442	149,573	—	—	—	—	318,015
Cash (used in)/generated from operations	(182,014)	299,383	—	—	(34,833)	—	82,536
Interest received	1,509	6,798	—	—	—	—	8,307
Tax paid	(4,616)	(55,909)	—	—	—	—	(60,525)
Net cash (used in)/ from operating activities	(185,121)	250,272	—	—	(34,833)	—	30,318
Cash flows from investing activities							
Acquisition of:							
- intangible assets	(848)	—	—	—	—	—	(848)
- subsidiaries, net of cash acquired	4,846	—	—	—	—	—	4,846
Purchase of property, plant and equipment	(5,053)	(12,290)	—	—	—	—	(17,343)
Proceeds from disposal of:							
- property, plant and equipment	464	—	—	—	—	—	464
- concession rights	2,515	—	—	—	—	—	2,515
Repayment of amounts due from intermediate holding company	—	(40,133)	—	—	—	—	(40,133)
Net cash from/(used in) investing activities	1,924	(52,423)	—	—	—	—	(50,499)

For the year ended 31 December 2013	Audited consolidated statement of cash flows of the Group HK$'000	Audited consolidated statement of cash flows of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	Unaudited pro forma consolidated statement of cash flows HK$'000
Cash flows from financing activities							
Proceeds from:							
- exercise of warrants	11,251	—	14,379	—	—	—	25,630
- exercise of share options	—	—	—	144,899	—	—	144,899
- issue of shares	88,379	—	—	—	—	—	88,379
- bank borrowings	174,571	85,861	—	—	—	—	260,432
- issue of notes	299,818	—	—	—	—	—	299,818
Repayment of bank borrowings	(54,789)	(313,611)	—	—	—	—	(368,400)
Advances from:							
- a fellow subsidiary	—	2,389	—	—	—	—	2,389
- immediate holding company	—	167,455	—	—	—	—	167,455
- intermediate holding company	—	6,241	—	—	—	—	6,241
Interest paid	(56,058)	(78,759)	—	—	—	—	(134,817)
Payment of transaction costs related to loans and borrowings	(36,646)	—	—	—	—	—	(36,646)
Increase in bank balances pledged	(19,115)	4,135	—	—	—	—	(14,980)
Net cash from/(used in) financing activities	407,411	(126,289)	14,379	144,899	—	—	440,400
Net increase in cash and cash equivalents	224,214	71,560	14,379	144,899	(34,833)	—	420,219
Cash and cash equivalents at 1 January 2013	44,281	170,552	—	—	—	—	214,833
Effect of exchange rate changes on cash held	1,673	4,833	(268)	(2,706)	—	—	3,532
Cash and cash equivalents at 31 December 2013	270,168	246,945	14,111	142,193	(34,833)	—	638,584

Notes to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011 and receipt of cash from warrants exercised;

(b) To reflect the equity-settled share-based payment expenses relating to the share options which are assumed to have been exercised on 1 January 2013 and receipt of cash for options exercised;

(c) To account for the professional fees and related costs in respect of the Proposed Acquisition; and

(d) To account for the fair value changes on contingent consideration payable relating to the Consideration Shares which are assumed to have been issued on 1 January 2011.

For the six-months ended 30 June 2014	Audited consolidated statement of cash flows of the Group	Audited consolidated statement of cash flows of CEWIL	Pro forma adjustments (see note below)				Unaudited pro forma consolidated statement of cash flows
			(a)	(b)	(c)	(d)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash flows from operating activities							
(Loss)/Profit before tax	(104,092)	247,246	12,040	34,765	11,267	33,563	234,789
Adjustments for:							
Depreciation of property, plant and equipment	1,433	6,522	—	—	—	—	7,955
Amortisation of intangible assets	5,302	2,565	—	—	—	—	7,867
Amortisation of land use rights	1,268	165	—	—	—	—	1,433
Bad debts written off	2,177	—	—	—	—	—	2,177
Impairment loss on other receivables	608	—	—	—	—	—	608
(Gain)/Loss on disposal of property, plant and equipment	(190)	148	—	—	—	—	(42)
Net fair value loss on:							
- warrants	11,894	—	(11,894)	—	—	—	—
- cross-currency swap	(4,013)	—	—	—	—	—	(4,013)
- contingent consideration payable	33,563	—	—	—	—	(33,563)	—
Equity-settled share based transaction	33,304	—	—	(33,304)	—	—	—
Effect of foreign exchange rate changes	8,101	3,984	(146)	(1,461)	—	—	10,478
Net finance costs	43,085	33,832	—	—	—	—	76,917
Operating cash flows before working capital changes	32,440	294,462	—	—	11,267	—	338,169

For the six-months ended 30 June 2014	Audited consolidated statement of cash flows of the Group HK$'000	Audited consolidated statement of cash flows of CEWIL HK$'000	Pro forma adjustments (see note below) (a) HK$'000	(b) HK$'000	(c) HK$'000	(d) HK$'000	Unaudited pro forma consolidated statement of cash flows HK$'000
Changes in working capital:							
Financial receivables	(51,970)	46,127	—	—	—	—	(5,843)
Inventories	(5,280)	(620)	—	—	—	—	(5,900)
Trade and other receivables	(33,137)	(91,535)	—	—	—	—	(124,672)
Trade and other payables	33,051	(241,555)	—	—	—	—	(208,504)
Cash (used in)/generated from operations	(24,896)	6,879	—	—	11,267	—	(6,750)
Interest received	—	906	—	—	—	—	906
Tax paid	(9,556)	(32,127)	—	—	—	—	(41,683)
Net cash used in operating activities	(34,452)	(24,342)	—	—	11,267	—	(47,527)
Cash flows from investing activities							
Acquisition of concession rights	(9,736)	—	—	—	—	—	(9,736)
Interest received	1,543	—	—	—	—	—	1,543
Purchase of property, plant and equipment	(1,988)	(1,714)	—	—	—	—	(3,702)
Proceeds from disposal of:							
- property, plant and equipment	630	47	—	—	—	—	677
- concession rights	1,393	—	—	—	—	—	1,393
Repayment from loan receivables	—	49,860	—	—	—	—	49,860
Net cash (used in)/from investing activities	(8,158)	48,193	—	—	—	—	40,035

For the six-months ended 30 June 2014	Audited consolidated statement of cash flows of the Group	Audited consolidated statement of cash flows of CEWIL	Pro forma adjustments (see note below)				Unaudited pro forma consolidated statement of cash flows
			(a)	(b)	(c)	(d)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash flows from financing activities							
Proceeds from:							
- exercise of warrants	13,829	—	(13,829)	—	—	—	—
- exercise of share options	—	—	—	—	—	—	—
- bank borrowings	300,385	110,225	—	—	—	—	410,610
Repayment of bank borrowings	(60,064)	(124,661)	—	—	—	—	(184,725)
Advances from:							
- a fellow subsidiary	—	134,465	—	—	—	—	134,465
- immediate holding company	—	(200,464)	—	—	—	—	(200,464)
- intermediate holding company	—	177,266	—	—	—	—	177,266
Interest paid	(38,295)	(34,738)	—	—	—	—	(73,033)
Payment of transaction costs related to loans and borrowings	(2,622)	—	—	—	—	—	(2,622)
Increase in bank balances pledged	(98,881)	(10,641)	—	—	—	—	(109,522)
Net cash from/(used in) financing activities	114,352	51,452	(13,829)	—	—	—	151,975
Net increase in cash and cash equivalents	71,742	75,303	(13,829)	—	11,267	—	144,483
Cash and cash equivalents at 1 January 2014	270,168	246,945	14,111	142,193	(34,833)	—	638,584
Effect of exchange rate changes on cash held	(1,259)	(6,235)	256	2,580	—	—	(4,658)
Cash and cash equivalents at 30 June 2014	340,651	316,013	538	144,773	(23,566)	—	778,409

Notes to the pro forma adjustments:

(a) To account for the fair value changes on the outstanding warrants as at 31 December 2013 which are assumed to have been exercised on 1 January 2011 and receipt of cash from warrants exercised;

(b) To reflect the reversal of equity-settled share-based payment expenses relating to the share options which are assumed to have been exercised on 1 January 2013 and receipt of cash for options exercised;

(c) To account for the professional fees and related costs in respect of the Proposed Acquisition; and

(d) To account for the fair value changes on contingent consideration payable relating to the Consideration Shares which are assumed to have been issued on 1 January 2011.

6. (Loss)/Earnings per share

	Year ended 31 December			Six months ended 30 June
	2011	2012	2013	2014
Net (loss)/profit attributable to equity holders of the Company (HK$'000)	(194,126)	263,377	382,645	135,796
Weighted average number of ordinary shares outstanding ('000)	2,487,525	2,487,525	2,487,525	2,487,525
Basic and diluted (loss)/earnings per share (HK$)	(0.08)	0.11	0.15	0.05

This summary provides information about certain provisions of our Memorandum of Association and Bye-laws. The description below is only a summary and is qualified in its entirety by reference to the law of Bermuda and the Company's Memorandum of Association and Bye-laws.

1. Registration Number and Memorandum

The Company was incorporated in Bermuda on 22 August 2003 under the Companies Act 1981 of Bermuda bearing the registration number 34074. The Memorandum of Association of the Company states, among others, that the liability of each member is limited to the amount for the time being unpaid on such member's shares.

2. Directors

(a) Ability of interested directors to vote

According to Bye-law 101, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our Company shall declare the nature of his interest at the meeting of our Board at which the question of entering into the contract or transaction is first considered, if he knows his interest then exists, or in any other case at the first meeting of our Board after he knows that he is or has become so interested.

Bye-law 102 states that a Director shall not vote on any resolution of our Board in respect of any contract or transaction or proposed contract or transaction in which he has directly or indirectly a personal material interest. Certain matters in which a Director will not be considered to have a personal material interest are set out in the Bye-laws.

(b) Ability of director to vote on remuneration (including pension or other benefits), for himself or for any other director, and whether the quorum at a meeting of the board of directors to vote on directors' remuneration may include the director whose remuneration is the subject of the vote

Issues pertaining to remuneration, including pensions or other benefits that the director is directly or indirectly interested do not fall under one of the matters in which a Director will not be considered to have a personal material interest. Therefore, a director may not vote on issues pertaining to remuneration, including pensions or other benefits, for the director himself or for any Associates who are directors of the Company. The Director's votes shall not be counted and the quorum at the relevant meeting shall exclude the director.

(c) Borrowing powers exercisable by the directors and the variation of such borrowing powers

Pursuant to Bye-law 109, the Board of Directors may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and subject to the Companies Act 1981 of Bermuda, to issue debentures, bonds and other securities, whether outright or as collateral security.

These powers conferred on the Directors may be varied by amending the Bye-laws of the Company.

(d) Retirement age limit

There is no retirement age limit for Directors in the Bye-laws of the Company.

(e) Shareholding qualification

Pursuant to Bye-law 85(3), there is no shareholding qualification for a Director.

3. Share rights, preferences and restrictions

(a) Voting rights

According to Bye-law 65, subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-laws of Company, at any general meeting (i) on a show of hands every member present in person or a proxy shall have one vote and the chairman of the meeting shall determine which proxy shall be entitled to vote where a member is represented by two proxies, and (ii) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder or which he represents and in respect of which all calls due to the Company have been paid, but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

Bye-law 75 states that no member shall, unless the Board of Directors otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

(b) Dividends and other payments

According to Bye-law 136, subject to these Bye-laws of the Company and in accordance with the Companies Act 1981 of Bermuda, the Board of Directors may declare a dividend in any currency to be paid to the members and such dividend may be paid in cash or wholly or partly in specie in which case the Board of Directors may fix the value for distribution in specie of any assets. The Board may declare and make such other distributions (in cash or in specie) to the Members as may be lawfully made out of the assets of the Company. The Company in general meeting may also, subject to these Bye-laws of the Company and in accordance with the Companies Act 1981 of Bermuda, declare a dividend or such other distribution to be paid to the members but no dividend or distribution shall be declared by the company in general meeting in excess of the amount recommended by the Board of Directors.

Bye-law 138 states that no dividend shall be paid or distribution made if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) Variation of rights of shares

Pursuant to Bye-law 10, whenever the share capital of the Company is divided into different classes of shares, subject to the provisions of every act of the Legislature of Bermuda for the time being in force applying to or affecting the Company, preference capital other than redeemable preference capital may be repaid and the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up. To every such separate general meeting, all the provisions of these Bye-laws relating to general meetings of the Company and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class and at any adjourned meeting of such holders, two holders present in person or by proxy shall be a quorum and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him, provided always that where the necessary majority for such a special resolution is not obtained at such general meeting, consent in writing if obtained from the holders of three-quarters in nominal value of the issued shares of the class concerned within two months of such general meeting shall be as valid and effectual as a special resolution carried at such general meeting.

Bye-law 11 states that the special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking pari passu therewith.

(d) Pre-emption rights

According to Bye-law 12(1), subject to any direction to the contrary that may be given by the Company in a general meeting, any issue of shares for cash to members holding shares of any class shall be offered to such members in proportion as nearly as may be to the number of shares of each class then held by them.

4. Change in capital

According to Bye-law 4, the Company may from time to time by ordinary resolution in accordance with Section 45 of the Companies Act 1981 of Bermuda, increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe, or consolidate and divide all or any of its capital into shares of larger amount than its existing shares.

5. Time limit after which a dividend entitlement will elapse and the party in whose favour this entitlement then operations

According to Bye-law 143, all dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

6. Limitation on the right to own shares

There are no limitations, either under the laws of Bermuda or the Bye-laws of the Company, on the rights of owners of our Company's shares to hold or vote their shares solely by reason that they are non-resident or foreign shareholders.

HANKORE ENVIRONMENT TECH GROUP LIMITED

(Company Registration Number 34074)
(Incorporated in Bermuda)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting ("**SGM**") of HanKore Environment Tech Group Limited (the "**Company**") will be held at, Pan Pacific Singapore, Ocean 1-3, Level 2, 7 Raffles Boulevard, Marina Square, Singapore 039595 on 5 December 2014 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following ordinary and special resolutions, with or without any modifications:

AS ORDINARY RESOLUTIONS

Resolution 1:

Proposed acquisition of the entire paid-up share capital of China Everbright Water Investments Limited (the "Target Company") for the consideration of RMB5,811,267,353 from China Everbright Water Holdings Limited (the "Vendor")

THAT subject to and contingent upon Resolution 3 being passed:

(a) approval be and is hereby given to the Company for the acquisition of the entire issued and paid-up share capital of the Target Company from the Vendor (the "**Proposed Acquisition**") on the terms and subject to the conditions of the sale and purchase agreement dated 2 June 2014 (the "**Acquisition Agreement**") entered into between the Company and the Vendor; and

(b) authority be and is hereby given for the Directors of the Company to take such steps, enter into all such transactions, arrangements and agreements and execute all such documents as may be necessary or expedient for the purposes of giving effect to the Proposed Acquisition or to give effect to this Resolution or the transactions contemplated by the Proposed Acquisition.

Resolution 2:

The allotment and Issuance of 1,940,269,305 Consideration Shares to the Vendor in satisfaction of the Consideration for the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed, the Directors be and are hereby authorised to issue and allot 1,940,269,305 new ordinary shares in the capital of the Company (the "**Consideration Shares**") to the Vendor.

Resolution 3:

The proposed whitewash resolution for the waiver by Independent Shareholders of their right to receive a mandatory offer from the Vendor and its concert parties

THAT subject to and contingent upon Resolution 1 being passed and pursuant to the letter dated 28 May 2014 from the Securities Industry Council, the shareholders of the Company who are independent of the Vendor and its concert parties, on a poll taken, do hereby unconditionally and irrevocably waive their right to receive a general offer under Rule 14 of the Singapore Code on Take-overs and Mergers (the "**Code**") for all the shares held by them to be made by the Vendor and its concert parties at the highest price paid or agreed to be paid by the Vendor and its concert parties in the six (6) months prior to the Vendor and its concert parties incurring the mandatory general offer under Rule 14 of the Code, as a result of the acquisition by the Vendor (and its concert parties) of more than 30% of the voting rights in the Company pursuant to the allotment and issue of the Consideration Shares.

Resolution 4:

The appointment of Chen Xiaoping as a new Director upon completion of the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed and the Proposed Acquisition being completed, subject further to his individual consent to act, Chen Xiaoping be appointed as a director of the Company with effect from the completion of the Proposed Acquisition.

Resolution 5:

The appointment of Wang Tianyi as a new Director upon completion of the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed and the Proposed Acquisition being completed, subject further to his individual consent to act, Wang Tianyi be appointed as a director of the Company with effect from the completion of the Proposed Acquisition.

Resolution 6:

The appointment of An Xuesong as a new Director upon completion of the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed and the Proposed Acquisition being completed, subject further to his individual consent to act, An Xuesong be appointed as a director of the Company with effect from the completion of the Proposed Acquisition.

Resolution 7:

The appointment of Yang Zhiqiang as a new Director upon completion of the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed and the Proposed Acquisition being completed, subject further to his individual consent to act, Yang Zhiqiang be appointed as a director of the Company with effect from the completion of the Proposed Acquisition.

Resolution 8:

The proposed variation of the general share issue mandate upon completion of the Proposed Acquisition

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed and the Proposed Acquisition being completed, and pursuant to the Company's Bye-laws, authority be granted to the Enlarged Group Directors to allot and issue new Shares and convertible securities at any time and upon such terms and conditions, and to such persons as the Enlarged Group Directors shall in their absolute discretion deem fit, provided that the aggregate number of Shares and convertible securities that may be issued must not be more than 50% of the Post-Completion Share Capital (as defined below), excluding treasury shares of the Company, of which the aggregate number of Shares and convertible securities issued other than on a pro-rata basis to Shareholders must not be more than 20% of the Post-Completion Share Capital, excluding treasury shares of the Company, and, unless revoked or varied by the Shareholders in general meeting, such authority shall continue in full force until the conclusion of the next annual general meeting or the date by which the next annual general meeting is required by law to be held, whichever is earlier.

For the purpose of determining the aggregate number of Shares and convertible securities that may be issued, the percentage of issued share capital shall be based on the Company's issued share capital as at the time of passing of this ordinary resolution, after adjusting for:

(i) the issuance of 1,940,269,305 Consideration Shares to the Vendor pursuant to the Proposed Acquisition;

(ii) the issuance of new shares arising from the conversion or exercise of any convertible securities;

(iii) the issuance of new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time the resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual; and/or

(iv) any subsequent bonus issue, consolidation or subdivision of the Company's Shares,

(the "**Post-Completion Share Capital**").

AS SPECIAL RESOLUTION

Resolution 9:

The proposed change of name of the Company to "China Everbright Water Limited (中国光大水务有限公司)"

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed, the completion of the Proposed Acquisition and the approval of the Registrar of Companies in Bermuda being obtained, the English name of the Company be and is hereby changed from "HanKore Environment Tech Group Limited" to "China Everbright Water Limited" and a new Chinese name "中国光大水务有限公司" be adopted as the new secondary name of the Company in place of the existing secondary name "汉科环境科技集团", with effect from the date of entry of the new English name and Chinese secondary name of the Company on the register maintained by the Registrar of Companies in Bermuda, and the directors of the Company be and are hereby authorised to do all such acts, deeds and things and execute all such documents, including under seal where applicable, as they may consider necessary or expedient in connection with the implementation of or give effect to the change of name of the Company.

By Order of the Board

Chen Dawei, David
Executive Chairman
12 November 2014

Explanatory Notes:

(1) A member of the Company (other than CDP) entitled to attend and vote at a meeting of the Company and who hold two or more Shares shall be entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.

(2) Where a member appoints two proxies, the appointments shall be invalid unless he specifies the number of his Shares to be represented by each proxy respectively.

(3) The instrument appointing a proxy or proxies must be deposited at the office of the Company's Singapore Share Transfer Agent Boardroom Corporate & Advisory Services Pte Ltd at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623, not less than forty-eight (48) hours before the time appointed for the Special General Meeting.

(4) The instrument appointing a proxy or proxies shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.